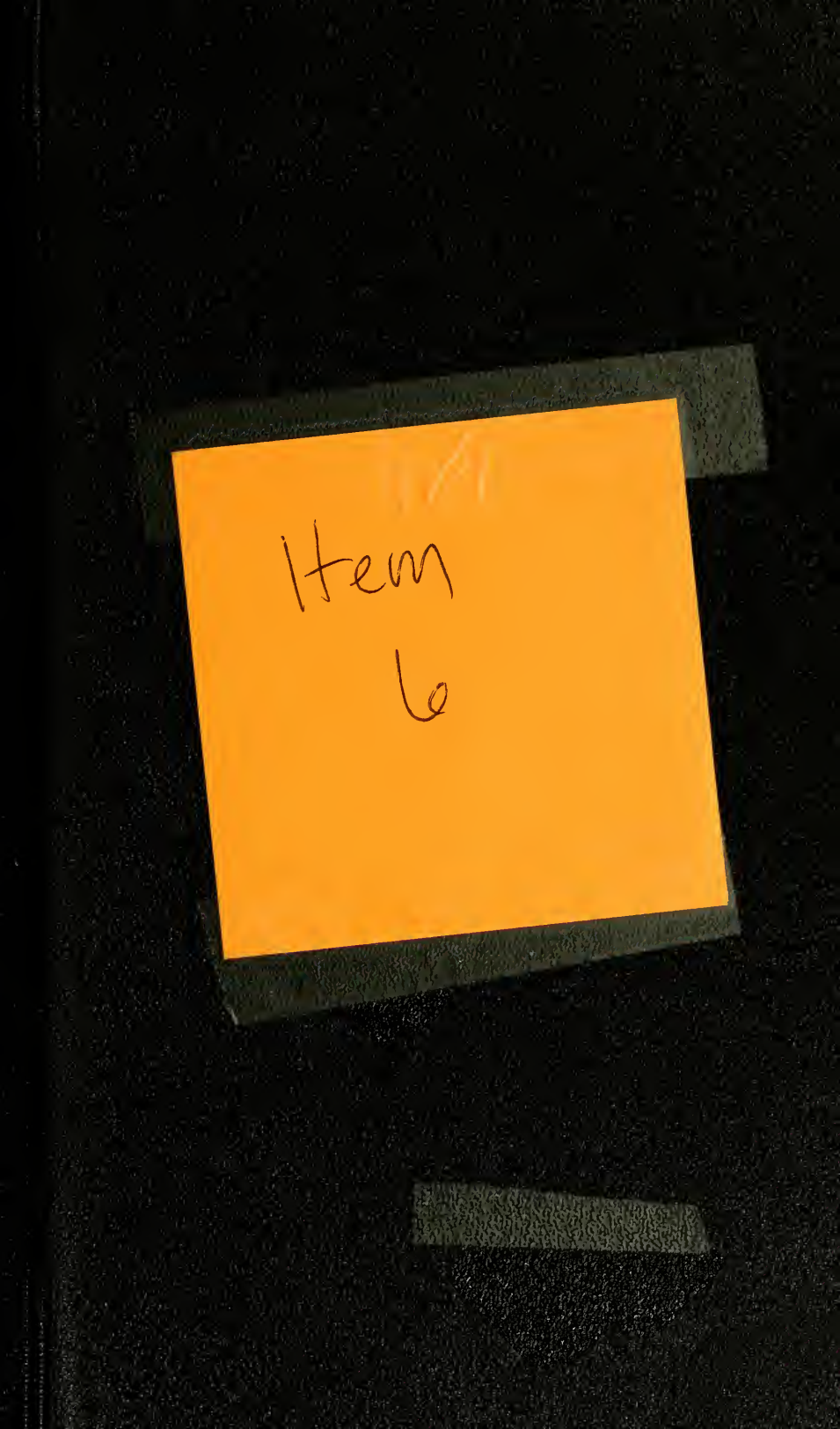
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PART 8–A

TREASURY'S 1951 EXCISE TAX PROPOSALS

PREPARED BY THE

STAFF OF THE TREASURY

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GENERAL CONSIDERATIONS

The Treasury has suggested that some $3 billion of additional revenue be raised from existing excise taxes through revision of tax rates and miscellaneous revisions of the existing tax bases. Such a program would avoid resort to new revenue sources requiring the development of additional administrative machinery. The additional revenue would reduce the revenue demands on corporate and individual income taxes which raise incentive problems and other difficulties. Increases in excise taxes, however, should be selected so as to apply to consumer goods which are either not absolutely essential or will be subject to production cut-backs as a result of the defense program so that the tax itself would not curtail output.

In developing recommendations in this area, all of the existing excises as well as the most promising new sources were canvassed to determine the most desirable components of a rounded program. The over-all objective was to make a selection which would meet high standards of productivity, assure a minimum of inequity and undesirable economic effects, and achieve the best possible adjustment to the special economic conditions of the emergency.

The whole field of existing and potential excise sources was reexamined in the light of specific economic and equity criteria. It was considered desirable insofar as possible to avoid taxes which would (1) substantially raise business costs, (2) increase rates beyond critical levels, (3) adversely affect depressed lines of business, (4) impose regressive or unfair burdens on consumers, (5) introduce substantial new administrative burdens, (6) complicate the tasks of price and wage stabilization, or (7) complicate State and local fiscal problems.

Although the excises selected must as a group satisfy these criteria to a high degree, no one tax can be expected to satisfy perfectly all such exacting standards. The task is one of carefully weighing the alternatives to achieve a balanced result. In making specific choices, this may require a compromise of difficult and conflicting considerations.

The over-all goal of $3 billion from excises involves rates of taxation which would not be desirable under more normal conditions. However, these rates appear justified in light of the pressing revenue demands and the special economic conditions growing out of the emergency.

The special supply and demand conditions associated with the defense effort afford a basis for relatively heavy emergency excises on some products. In a situation where supplies of certain consumer items will inevitably be reduced in relation to demand, an added tax will impose no net restriction on the industries involved and possibly no large burden on consumers in view of upward pressures on price which would operate in the absence of the tax.

The application of the tests outlined above resulted in the selection of a limited group of existing taxes, most of which are very productive (table 1). The proposed increases are in two principal areas. (1) Expenditures for alcoholic beverages, cigarettes and cigars, and gasoline. These are traditionally the major revenue producers in the Federal excise structure. (2) Consumer durable goods such as passenger automobiles and household appliances, the production of which is being restricted under the defense program. The balance of the revenue in the excise area would be derived from miscellaneous revisions in the bases of existing taxes so as to increase their scope in the interest of greater productivity and competitive equality.

The following sections discuss in more detail how the various tests applied led to the selection of specific excise taxes for inclusion in the 1951 revenue legislation.

TABLE 1.—*Excise tax rates and yields under present law and under the Treasury's proposal, fiscal year 1952*

Item	Tax base	Present rate	Proposed rate	Estimated revenue [1]	
				Present law	Increase under proposal
				Millions	*Millions*
Alcoholic beverages:					
Distilled spirits	Proof gallon	$9	$12	$1,565	$294
Beer	Barrel	$8	$12	670	287
Still wines	Gallon	15 cents, 60 cents, $2.	50 cents, $1.50, $3	80	90
Sparkling wines	Half pint	10 cents, 15 cents	15 cents, 22 cents		
Total, alcoholic beverages.				2,315	671
Tobacco:					
Cigarettes	Thousand	$3.50	$5	1,360	522
Cigars (see Schedule A)	Thousand	$2.50 to $20	$1.50 to $37.50	43	25
Tobacco and Snuff	Pound	18 cents	No change	41	
Total, tobacco				1,444	547
Other nondurable goods:					
Gasoline	Gallon	1½ cents	3 cents	625	606
Toilet preparations	Retail price	20 percent	No change [2]	121	3
Matches	Thousand	2 cents	No change	10	
Lubricating oil	Gallon	6 cents	No change	110	
Total, other nondurable goods.				866	609
Durable goods:					
Consumer goods:					
Automobiles	Manufacturer's price.	7 percent	20 percent	415	771
Electric, gas and oil appliances.	Manufacturer's price.	10 percent	25 percent [3]	75	286
Refrigerators	Manufacturer's price.	10 percent	25 percent	75	113
Radios, television sets, phonographs, phonograph records, musical instruments.	Manufacturer's price.	10 percent	25 percent	100	150
Fur articles	Retail price	20 percent	No change [4]	62	25
Jewelry	Retail price	20 percent	No change [5]	222	54
Luggage	Retail price	20 percent	No change	88	
Sporting goods	Manufacturer's price.	10 percent	No change	[6] 12	
Total, consumer durable goods.				1,049	1,399
Goods entering heavily into business costs:					
Auto parts and accessories	Manufacturer's price.	5 percent	No change	95	
Business and store machines.	Manufacturer's price.	10 percent	No change	38	
Electric light bulbs	Manufacturer's price.	20 percent	No change	25	
Photographic apparatus and film.	Manufacturer's price.	25 percent and 15 percent.	No change	38	
Tires and tubes	Pound	5 cents and 9 cents	No change	175	
Trucks and busses	Manufacturer's price.	5 cents	No change	115	
Total, durable goods entering heavily in business costs.				486	
Total, all durable goods				1,535	1,399

See footnotes at end of table, p. 4.

TABLE 1.—*Excise tax rates and yields under present law and under the Treasury's proposal, fiscal year 1952*—Continued

Item	Tax base	Present rate	Proposed rate	Estimated revenue [1]	
				Present law	Increase under proposal
Services:				*Millions*	*Millions*
Communications:					
Toll telephone, telegraph, cable, and leased wires.	Charge	25 percent	No change	$390	
International telegraph cable and radio.	Charge	10 percent	No change		
Local telephone	Charge	15 percent	No change	325	
Total, communication.				715	
Transportation:					
Transportation of persons.	Charge	15 percent	No change	230	
Transportation of property.	Charge	3 percent	No change	420	
Transportation of oil by pipeline.	Charge	4½ percent	No change	28	
Total, transportation.				678	
Electrical energy	Charge	3⅛ percent	No change	103	
Other services:					
Bowling alleys and billiard tables.	Table or alley	$20 per year	20 percent of charge.	4	$20
Golf green fees	Charge	No tax	20 percent	0	6
Admissions	Charge	1 cent per 5 cents or major fraction.	No change	350	
Cabarets	Charge	20 percent	No change	40	
Coin-operated devices	Annual charge per machine.	$10 to $150	No change	25	
Dues and initiation fees.	Charge	20 percent	No change	32	
Leases of safe deposit boxes.	Charge	20 percent	No change	10	
Total other services				461	26
Total all services				1,957	26
Stamp taxes:					
Deeds of conveyance	Value	35 cents per $500 or fraction if value is over $100.	No change	60	
Issues of stocks and bonds	Value	11 cents per $100	No change		
Transfers of stocks and bonds.	Value	5 cents per $100	No change	33	
Playing cards	Package	13 cents		9	
Total stamp taxes				102	
Other taxes not changed by the Secretary's proposal.[7]				160	
Total, all excises				8,380	3,252

NOTE.—Figures are rounded and will not necessarily add to totals.

[1] Full-year effect at estimated fiscal year 1952 levels of income.

[2] Extend tax to shampoos containing not more than 5 percent of saponaceous matter.

[3] Tax to include the following household type of electrical appliances: Vacuum cleaners, washing machines, mangles, dishwashers, dryers, sewing machines, floor polishers and waxers, garbage-disposal units, and razors.

[4] Fur-trimmed and fur-lined coats made taxable if fur is the component of chief value.

[5] Tax extended to silver-plated flatware and fountain pens ornamented with precious metals. In addition, tax raised to 20 percent for alarm clocks retailing for $5 or less, and watches retailing for $65 and less.

[6] Excludes collections from the tax on fishing equipment.

[7] Includes rectification tax, liquor occupational taxes, and taxes on container stamps, cigarette papers, silver bullion, pistols and revolvers, coconut and vegetable oils and sugar.

Schedule A: Cigar tax schedule

Intended retail price (cents per cigar)		Present rate	Proposed rate
Over—	Not over—		
		Per thousand	*Per thousand*
0	2.0	$2.50	$1.50
2.0	2.5	2.50	3.50
2.5	4.0	3.00	3.50
4.0	6.0	4.00	6.50
6.0	8.0	7.00	9.75
8.0	10.0	10.00	12.75
10.0	12.0	10.00	15.75
12.0	14.0	10.00	18.75
14.0	15.0	10.00	21.75
15.0	16.0	15.00	21.75
16.0	18.0	15.00	24.75
18.0	20.0	15.00	27.75
20.0	----------	20.00	37.50

I. Impact on Business Costs

Although most existing excises are imposed on articles or services used primarily by consumers, some apply to items used wholly or partly by businesses. New or increased excises on items purchased largely for business use should be avoided insofar as possible, since they would be reflected in higher prices for consumer goods in general, including the necessities of life. They would generally be regressive since low-income consumers spend a larger percentage of their income for general consumption items than persons with higher incomes. This consideration suggests that no increases should be made in such existing taxes as those on transportation of property and long-distance telephone service. (The importance of existing excise taxes in business costs is shown in table 2.) The taxes selected for increase, on the other hand, generally meet the test of avoiding business costs to a high degree.

A further disadvantage of excise taxes affecting business costs is the process of diffusion and pyramiding whereby such taxes ultimately cost consumers substantially more than they yield in revenue. Moreover, such taxes frequently create unfair competitive situations. The tax on transportation of property, for instance, discriminates against firms which are distant from the market as compared with firms which are near the market. These objections to taxing business-cost items are especially important when many other economic pressures are at work to increase business costs and raise prices.

TABLE 2.—*Principal excises entering into business costs*

Excise	Approximate percent entering into business costs	Estimated revenue, fiscal year 1951
	Percent	*Millions of dollars*
Transportation of property	100	380
Transportation of oil by pipeline	100	25
Business and store machines	100	42
Trucks	90	122
Lubricating oils	80	103
Total	75–100	672
Toll telephone, telegraph, radio, and cable	60	360
Gasoline	50	580
Tires and tubes	50	185
Local telephone	50	300
Photographic apparatus	50	42
Total	50–75	1,467
Grand total		2,139

The increase in the gasoline tax, although of substantial importance as a business cost, rests on the offsetting consideration that the relative weight of the present tax of 1½ cents a gallon has declined as gasoline prices have risen.

II. CRITICAL LEVELS OF TAX

Rates of existing taxes should not be pushed so high as to invite substantial evasion nor should new taxes be imposed on items for which adequate compliance is difficult to secure even at reasonable rates.

So-called critical levels of tax, however, involve more than compliance and administrative considerations. It is important that rates should not be so high as to reduce sales below the level of production consistent with the defense program. The tax increases should be selected with regard for the supply of products or services which the economy can readily provide. It is also important to avoid influencing the patterns of consumer expenditures to such an extent that it would stimulate new demands or other costly economic adjustments.

In considering the problem of critical rate levels, it is necessary to appraise a particular tax increase in terms of the tax levels for related or competing products. Increases covering a whole area of consumption would not reduce purchases of any particular item in the group in the same manner as an isolated increase on a particular item. For example, balanced increases in the taxes on all alcoholic beverages would tend to maintain competitive equality among products competing for the consumer's dollar. Similarly, the effect of a proposed increase on one type of consumer durable goods cannot leave out of account the impact of corresponding increases on other consumer durables.

III. Effects on Relatively Depressed Industries

Some excise tax increases would seriously reduce the profits of the industry affected or aggrevate existing unfavorable conditions. Excise taxes have relatively little adverse effect where demand is insensitive to price changes or is large in relation to supply. On the other hand, excise taxes may have depressive effects where demand is highly sensitive to price changes or where the industry is already facing problems of adjustment due to excessive supply or declining demand. The impact of additional excise taxation in any particular industry would, or course, vary from time to time since supply and demand relationships do not remain constant.

Prior to the Korean war, it appeared that economic difficulties were being experienced by certain industries, including those affected by the taxes on transportation of persons and long-distance telephone and telegraph communications, and by the retail excises on sales of furs, luggage, and jewelry. While situations where excess capacity existed have been at least partly corrected by the increasing income and demand generated in the defense economy, it would be undesirable to impose tax increases which might precipitate further difficulties.

IV. Regressive Impact on Consumers

In most cases, consumers bear the major part of the burden of excise taxes as direct purchasers of taxed articles. In addition, excises on business costs enter into consumer purchases indirectly where business adjusts its prices to reflect the tax. In some cases, prices may be increased by more than the amount of tax.

Roughly, one-third of existing excises are proportional or progressive for incomes below $5,000. Another third are regressive even in this income area, while the incidence of the remaining third is more uncertain (table 3).

Insofar as possible the proposed increases have been confined to those excises which do not take a larger share of the low-income taxpayer's dollar than of the higher incomes. Under this selective approach, no increases in such excises as those on manufactured tobacco and electricity, which fall more heavily on the low-income purchaser or the large family, are proposed. Although the taxes on cigarettes and alcoholic beverages may not be progressive, they afford a degree of choice on the part of the consumer. Unlike some alternatives, they do not impose higher burdens on families with children. In spite of their imperfections, therefore, increases in these traditional excises appear essential in an expanded revenue program.

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TABLE 3.—*Distribution of excise tax revenues for fiscal year 1951 according to characteristics of consumer expenditures*

Group and item	Estimated revenues, fiscal year 1951 (in millions)
Regressive	$1,939
Items entering into business costs [1]	681
Manufactured tobacco	41
Electrical energy	94
Tires and tubes	185
Transportation of persons	225
Gasoline	580
Lubricating oils	103
Electric-light bulbs	30
Proportional	1,629
Toilet preparations	109
Cigars	43
Sporting goods	15
Photographic equipment and film	42
Refrigerators	100
Cigarettes	1,320
Progressive	1,625
Luggage	83
Jewelry	209
Radio and television receiving sets, phonographs, phonograph records, and musical instruments	125
Admissions	397
Electric, gas, and oil applicances	115
Furs	56
Passenger automobiles	640
Not classified	3,598
Total	8,791

[1] Includes taxes on business and store machines, trucks, transportation of oil by pipeline, transportation of property, and parts and accessories for automobiles.

V. Increases in Existing Excises Versus New Excises

Excise taxes are now levied directly on about one-quarter of consumer expenditures (table 4). However, potential new sources of selective excise taxation are more limited than this figure would imply. The bulk of the remaining untaxed expenditure consists of food, clothing, rent or other housing expenditures, medical and legal services, educational costs, and home furnishings. These are for the most part essential cost-of-living items or directly involve the public interest. The extension of the excises into these new areas would necessitate additional administrative procedures and personnel. With the exception of important food and beverage items, none would be as productive as increases in the traditional excise sources which would not require additional administrative machinery.

In the case of some new excises which appear to promise substantial revenue, it is found that existing excises could produce equivalent revenue with no greater burden on low-income groups, and without introducing new compliance or administrative difficulties. For example, in place of the automobile use tax which was in effect during World War II (from October 1, 1941, to June 30, 1946), it was felt that additional revenue could be collected from automobile owners more conveniently through the existing gasoline tax.

TABLE 4.—*Amount and proportion of consumer expenditures directly subject to Federal excises, calendar year 1949*

[Dollar amounts in millions]

	Total	Amount subject to tax	Percent subject to tax
Consumer expenditures	$178,832	$40,609	22.7
Food and tobacco	62,890	13,086	20.8
Clothing, accessories, and jewelry	22,620	1,549	6.8
Personal care	2,200	565	25.7
Housing	17,203	0	0
Household operation	23,531	5,129	21.8
Medical care and death expenses	8,990	0	0
Personal business	7,447	49	.1
Transportation	19,373	14,930	77.1
Recreation	10,184	5,301	52.1
Private education and research	1,566	0	0
Religious and welfare activities	1,777	0	0
Foreign travel and remittances	1,051	0	0
Total expenditures for durable commodities	23,841	14,719	61.7
Total expenditures for nondurable commodities	98,541	18,306	18.6
Services	56,450	7,584	13.4

Source: Survey of Current Business, Department of Commerce, July 1950.

VI. INTEGRATION WITH THE STABILIZATION PROGRAM

Excise taxes can contribute to stabilization by absorbing excess purchasing power and by discouraging demand for scarce items. However, to obtain the maximum anti-inflationary effects, it is important that those taxes be selected which can best be integrated with wage and price stabilization.

Important excise-tax increases on essential cost-of-living items would have adverse effects on stabilization by giving rise to pressure for higher wages. This effect would be direct and immediate to the extent that there was an impact on the cost-of-living indexes. These indexes are used in so-called escalator clauses in wage contracts now applicable directly to 2.6 million employees in key industries and indirectly to millions of others.[1] Higher prices due to taxes on some items would also affect the farm parity ratio, thus exerting upward pressure on prices of basic agricultural commodities.

The application of excises to especially scarce items, such as consumer durable goods, would buttress direct controls by restraining demand. The proposed increases in taxes on consumer durables, however, are not intended to restrict output of these goods below the levels possible or permissible under the allocations system. It is not contemplated that there would be any attempt to substitute the operation of the tax laws for the judgment of the control agencies on how much should be produced or sold. However, it seems appropriate for taxation to support the stabilization objectives where there is a substantial disparity between supply and demand on items which are a desirable source of increased revenue.

[1] At the present time two indexes are prepared by the Bureau of Labor Statistics which are used in such contracts: The old and the new or adjusted index. The old index is used in determining wage levels for about 95 percent of the employees covered by escalator clauses.

VII. Effect on State and Local Governments

Although some duplication in excise taxes cannot be avoided, the proposed selective program based on existing Federal excises undertakes to minimize adverse repercussions on the States and localities. Omission of increases in the admissions tax, for example, would accord with this objective. The gasoline tax constitutes a major source of State and local revenue. However, since the proposed increase will not reduce gasoline consumption, it will not actually affect State tax collections.

A series of detailed statements on the individual excises included in the Treasury's $3 billion program is presented in the following appendixes.

APPENDIX A

Distilled Spirits

I. PROPOSAL

It is proposed to increase the excise tax on distilled spirits from $9 per proof gallon to $12 per proof gallon. The draw-back on nonbeverage spirits would be increased from $6 to $9 per proof gallon. The increase in tax is estimated to yield $294 million for a full year of operation at levels of income estimated for fiscal 1952. At the present rate of tax, the estimated yield for fiscal 1952 is $1,565 million.

II. TAX BASE

The tax applies to all distilled spirits produced or imported into the United States, and all products of distillation containing distilled spirits or alcohol on which the tax has not been paid. The tax is levied at a specific rate on the proof gallon or wine gallon, if below proof.[1] Payment of tax is required at the time the product is withdrawn from the distillery or internal revenue or customs bonded warehouse.

III. HISTORY OF THE TAX

Distilled spirits have been taxed under Federal revenue laws continuously since 1862. During the prohibition period withdrawals of beverage spirits were permitted only for medicinal purposes, and such spirits were taxed at the nonbeverage rate then in effect. Beginning with the Revenue Act of 1942 a draw-back has been allowed on distilled spirits used in medicines, food flavorings, and food products unfit for beverage purposes. The tax rates and effective dates of changes since 1913 are shown below.

Changes in tax rates since 1913

[Per proof gallon]

Revenue Act	Effective date	Rate
	In effect:	
	Jan. 1, 1914	$1.10
1917	Oct. 3, 1917	[1] 3.20
1918	Feb. 24, 1919	[1] 6.40
1926	Dec. 5, 1933 [2]	1.10
1934 [3]	Jan. 12, 1934	2.00
1938	July 1, 1938	[4] 2.25
1940	July 1, 1940	[5] 3.00
1941	Oct. 1, 1941	4.00
1942	Nov. 1, 1942	[6] 6.00
1943	Apr. 1, 1944	[7] 9.00

[1] Beverage rate. Rates for other than beverage purposes were $2.20 under Revenue Act of 1917, effective Oct. 3, 1917; $1.65 and $1.10 under the Revenue Act of 1926, effective Jan. 1, 1927, and Jan. 1, 1928, respectively.
[2] Effective date of the twenty-first amendment to the Constitution.
[3] Liquor Taxing Act of 1934.
[4] Brandy taxed at $2.
[5] Brandy taxed at $2.75.
[6] Draw-back of $3.75 if used in flavorings, medicines, or food products unfit for beverage purposes.
[7] Draw-back of $6 if used in flavorings, etc.

[1] The proof gallon or gallon of proof spirits is one "which contains one-half its volume of alcohol of a specific gravity of * * * (0.7939) at 60° Fahrenheit" (Internal Revenue Code, sec. 2809). Imported perfumes containing distilled spirits are taxed on the basis of the wine gallon of perfume.

IV. REVENUE

The tax on distilled spirits is the largest single source of excise tax revenue. This tax produced 64.1 percent of the total collections from taxes on alcoholic beverages and 18.7 percent of total excise tax collections for the fiscal year 1950. Annual collections from the tax on distilled spirits from 1936 are presented below:

Fiscal year	Collections [1] (millions)	Fiscal year	Collections [1] (millions)
1936	$222.2	1945	$1,484.3
1937	273.6	1946	1,746.6
1938	259.8	1947	1,685.4
1939	283.4	1948	1,436.2
1940	317.6	1949	1,397.9
1941	428.5	1950	1,421.9
1942	574.3	1951 [2]	1,850.0
1943	781.7	1952 [2]	1,565.0
1944	898.7		

[1] Represents collections from the gallonage tax only. Collections do not reflect draw-backs allowed on spirits for nonbeverage use.
[2] Present law; estimated.

V. INDUSTRY BACKGROUND AND OUTLOOK

The major part of the distilled spirits tax base is whisky, which is sold either straight or blended with neutral spirits. In the fiscal year 1950, domestically bottled spirits consisted of about 87 percent whisky, 8 percent gin, with the balance chiefly brandy, cordials, and liqueurs and rum (table 1). In the same year, whisky comprised over 90 percent of total imports of distilled spirits and brandy about 4 percent. Since imports are subject to customs duty as well as to internal revenue tax, they are limited chiefly to specialty products, of which scotch whisky is the most important.

A. Number of producers

Although distilled spirits are produced by a substantial number of firms,[2] four companies have assumed a leading position in the industry since the repeal of prohibition. By 1938 these companies accounted for more than one-half the production of whisky and owned one-half of the whisky stocks held in bonded warehouses.[3] During the war, they acquired additional distilleries and purchased stocks owned by other companies. By 1947, the latest year for which data are available, the proportion of the total output of distilled spirits accounted for by these four firms had reached 75 percent.[4]

The retailing and wholesaling of distilled spirits is unique in view of the 17 so-called monopoly States engaged in liquor distribution. Of these, 16 States purchase directly from distillers and sell to consumers through State-owned retail establishments.[5] One State, Wyoming, buys directly from the distiller and sells at wholesale to privately

[2] Over 200 corporations filing income tax returns in 1947 were classified as distillers, rectifiers, or blenders (table 2).
[3] Temporary National Economic Committee, Investigation of Concentration of Economic Power, pt. 6, Liquor Industry, pp. 2678, 2680.
[4] Selected census data transmitted by the Secretary of Commerce on December 1, 1949, in hearings before the Subcommittee on Study of Monopoly Power of the Committee on the Judiciary, House of Representatives, 81st Cong., 1st sess., pp. 1437–1453.
[5] The monopoly States are Alabama, Idaho, Iowa, Maine, Michigan, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, and West Virginia. North Carolina provides for the sale of distilled spirits on a county-dispensary basis.

owned retail establishments. In the remaining 29 States and the District of Columbia, where the sale of liquor is legal, distilled spirits are distributed and sold to consumers by private firms under State licenses.

B. Production and supply conditions

Since most whisky, rum, and brandy is aged from 2 to 8 years before being withdrawn for consumption, variations in the stocks of these items are more important than current production of distilleries in determining the supply available for consumption in the short period. Gin, however, ordinarily is not aged before being withdrawn for consumption. Similarly unaged alcohol or neutral spirits may be combined with straight aged whisky to produce larger amounts of blended whisky.

With the end of prohibition in 1933, the liquor industry was faced with the problem of building up stocks in order to insure a supply of properly aged spirits. Until the entry of the United States in World War II, the production of liquor exceeded tax-paid withdrawals from bonded warehouses and losses (table 3). As a result, by the end of fiscal 1942, stocks of distilled spirits in bonded warehouses reached over 585 million tax gallons.

During World War II, the prewar relationship between the output and withdrawals of liquor was reversed as distillers converted production from beverage spirits to industrial alcohol. By fiscal 1944, the liquor output of registered distilleries (all brandy and rum) reached a low of 24 million tax gallons, or about 15 percent of output for fiscal 1941. Tax-paid withdrawals of liquor, on the other hand, expanded during the war, reaching 168 million tax gallons by 1945. Part of this gap between domestic production and demand was met by increased imports which in 1944 were equivalent to more than one-third of all tax-paid withdrawals. Most of the gap, however, represented reduction of stocks accumulated prior to the war. As a result, by the end of fiscal 1945, stocks in bonded warehouses fell to 338 million gallons, or about 60 percent of the fiscal 1942 figure.

Since 1945 the production of distilled spirits has exceeded withdrawals for consumption. With removal of wartime restrictions on liquor production, output increased rapidly, reaching a peak of 315 million tax gallons in fiscal 1947. Total tax-paid withdrawals of liquor attained a high of 198 million gallons in fiscal 1946, but thereafter declined to 158 million gallons in fiscal 1950.

Since the outbreak of hostilities in Korea, there has been a very rapid step-up in the production of distilled spirits as distillers anticipated future restrictions on production. Output for the 7-month period from July 1, 1950, to January 31, 1951, amounted to 255 million tax gallons, exceeding the production figure for the entire fiscal year 1950 by more than 22 percent. Tax-paid withdrawals for the same 7-month period, though high compared to previous years, fell far short of output, and amounted to 119 million tax gallons. Liquor stocks in bonded warehouses have therefore climbed sharply. By January 31, 1951, these stocks amounted to 808 million tax gallons, almost 50 percent above levels existing in the years immediately preceding World War II.

C. Consumer demand

After the repeal of prohibition, consumers' purchases of distilled spirits expanded until they reached an estimated 145 million wine gallons in 1940 (table 4). During the war and early postwar years, consumption climbed almost continuously in spite of higher liquor taxes and prices. High income levels and the inability of consumers to purchase scarce durable goods were contributing factors. Purchases reached a peak in 1946, when consumers bought more than 230 million wine gallons of distilled spirits, for which they spent $5 billion or 3 percent of their total disposable income.

In the postwar years consumption of liquor declined, due in part to the greater availability of durable goods. However, the low point of about 170 million wine gallons in 1949 was higher than for any year prior to 1945 except 1942 when there was considerable anticipatory buying.

Since the outbreak of hostilities in Korea, however, consumer purchases of liquor have increased again. The 1950 consumption total of 190 million wine gallons was higher than in any prior year except 1945 and 1946.

D. Price and profit trends

Although the excise tax is a relatively large component of price, the prices of the various kinds of distilled spirits vary considerably. Whisky prices, for instance, reflect such quality factors as age, blend, proof, and the reputation of the producer. The older straight whiskies generally are priced higher than blends. Gin, an unaged product, usually sells at lower prices than whisky. Some low-priced brands of rum and brandy sell for less than gin, but others sell at prices comparable to whisky.

Although reliable price series are not available, it is generally reported that prices declined substantially in the 1930's as the industry accumulated an adequate supply of aged whisky. With unsettled market conditions, distillers gave special discounts from list prices and there were also price wars at the retail level, chiefly in the large metropolitan centers. This experience led both wholesalers and retailers to join in efforts to stabilize the industry and to induce distillers to price their products under the State Fair Trade Acts. The available data indicate that prices charged consumers increased considerably during World War II, chiefly as the result of increased taxes. Prices in the postwar period appear to have been relatively stable, although the products available have changed substantially since the wartime shortages.

Profits of all branches of the liquor industry increased greatly during the war and reached a peak in 1946. In that year, the net income after tax of distillers was almost five times as large as in 1940 (table 2). Over the same period, liquor wholesalers and retail package stores filing corporation tax returns enjoyed even larger relative increases in profits. Profits declined in 1947, but were still many times above prewar levels. Complete earnings data are not available after 1947, but the available information indicates that profits of distillers continued at approximately 1947 levels until mid 1950, when they increased sharply with increased buying after the outbreak of hostilities in Korea.

E. Prospective supply and demand relationship

The outlook for the liquor industry within the foreseeable future seems favorable. In view of the high levels of income anticipated, the demand for distilled spirits should be strong, especially as cut-backs in the output of durable goods release purchasing power for other uses. Barring complete mobilization or an extremely short grain crop, the liquor industry would be able to continue large volume production with a large part of its capacity diverted to industrial alcohol. Even if current distillation were curtailed, existing record stocks of distilled spirits would assure large supplies for current consumption. This supply could be stretched by blending or by reducing the alcoholic content.

VI. ECONOMIC EFFECTS OF THE PROPOSED TAX INCREASE

A. Impact on business

The proposed increase in tax of $3 per proof gallon would amount to about 52 cents a fifth on the ordinary type of whisky which is bottled at about 85 proof. On the average, this would represent a price increase of about 12 or 13 percent. The Federal tax at the proposed rates would constitute about 46 percent of total retail price per bottle, compared with 40 percent under present law. These estimates of price increases assume addition in full of the tax to current prices but no mark-up on the tax, for which no policy has been established.

Assuming the proposed tax increase is added to current prices to the full extent allowed by the price stabilization agency, the major impact of a tax increase on the industry would arise through reductions in unit sales. Higher prices resulting from the proposed tax increase are estimated to reduce consumption by 11 percent from the level estimated for fiscal 1952 under the existing tax, or to roughly the level prevailing in recent years.

Under the present tax rate, tax-paid withdrawals for fiscal 1952 are estimated to be 173.9 million proof gallons and with a $12 rate in effect for the full year the estimate is 154.9 million gallons, or about the same as in fiscal 1949 (table 3). Since liquor consumption is closely related to changes in consumers' incomes, any increase in incomes above the level estimated for fiscal 1952 would increase consumption above the estimated level of 155 million gallons.

Wholesalers and retailers would experience some increase in their capital requirements to maintain inventories. However, business practices would adjust to this problem as they have under past tax increases. The tax component is an essential part of the value of inventories of liquor sold through legal channels.

Taxable distilled spirits do not enter into business costs of other products to any important degree. The principal business use of tax-paid alcohol is in the manufacture of high-grade perfumes and certain food and medicinal products. The net tax on spirits used for these purposes would not increase since the draw-back would be raised to $9 to maintain the same net tax of $3. However, the working capital costs of producers entitled to the draw-back would be increased to some extent because they would first have to pay the $12 rate and then apply for the refund on use of the alcohol.

B. Impact on consumers

The distribution of the increased tax burden among consumers at different income levels is uncertain since surveys have revealed considerable reluctance by consumers to disclose the amount spent on alcoholic beverages. Fragmentary data seem to support the conclusion that consumer expenditures for distilled spirits are roughly proportional to the size of family income up to the $5,000 level.[6]

The proposed tax increase would have no effect on the Index of Prices Paid by Consumers, since distilled spirits are not included in the list of products whose prices are considered in the preparation of the index. Nor would the proposal affect the parity prices of farm prices since liquor is not included in the Index of Prices Paid by Farmers.

VII. ADMINISTRATIVE AND COMPLIANCE CONSIDERATIONS

Since the tax on distilled spirits is high in relation to production costs, there is considerable financial incentive for evasion through the production and sale of non-tax-paid liquor. The equipment required to produce liquor illicitly generally is inexpensive, and the chief ingredients, sugar, grain, and yeast, ordinarily can be obtained from commercial sources of supply. Moreover, the high value of distilled spirits in relation to their bulk facilitates dealing in bootleg products.

These factors have made it necessary for the Government not only to supervise operations in registered plants, but also to have a large enforcement personnel engaged in suppressing illegal production and distribution of distilled spirits. This work is conducted in close cooperation with State enforcement agencies.

It is difficult to make reliable estimates of the amount of liquor tax evasion, but an indication of changes in the scale of such operations may be obtained from data on still seizures. These show that illicit operations which had become widespread under prohibition were largely eliminated before 1941. This is confirmed by opinions of enforcement officers. The most notable achievement of this period was the breaking up of large-scale syndicates which had characterized operations in the North.

During the war and immediate postwar years illicit operations appear to have been reduced to a relatively low level despite the large increase in rate of tax. This is generally attributed to high incomes and employment opportunities combined with wartime restrictions on equipment and materials. One of the principal factors in restricting operations was the control over raw material supplies afforded enforcement offices by sugar rationing. Some increase in illicit activities accompanied the termination of this control.

At present, some liquor appears to be produced and sold illegally by fairly large well-organized groups on the east coast. Vigorous enforcement efforts are being made to eliminate this evasion. Most of the present problem, however, concerns small violators in 14 Southern States.[7] In the fiscal year 1950, these Southern States

[6] Department of Labor, Family Spending and Saving in Wartime, Bulletin No. 822, p. 78.

[7] These are Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina South Carolina, Oklahoma, Tennessee, Texas, Virginia, and West Virginia.

accounted for over 90 percent of the violations for the entire country, based on seizures of illicit mash and stills.[8] The fact that a large part of the population in these States is located in dry areas where tax-paid spirits are not available has contributed to the relatively large production of illicit liquor in these States.

Although the proposed tax increase would increase the financial inducement for tax evasion, it would probably not add greatly to problems of tax compliance and administration. Under present law, there is already substantial financial inducement to produce liquor illegally, and it is doubtful whether the added incentive resulting from the proposed tax increase would appreciably increase illicit production. Moreover, other factors besides the liquor tax are important in determining the amount of bootlegging. There is substantially less violation in all sections of the country today when the tax rate is $9 per proof gallon than in 1938 when the tax rate was $2.25 per proof gallon.

High income levels limit both the demand for illicit liquor and the supply of labor available for its production. The continuation of vigorous tax-enforcement efforts should also keep this traffic to manageable proportions.

VIII. FEDERAL-STATE-LOCAL RELATIONS

The taxation of distilled spirits represents one of the major areas of duplication by the Federal and State Governments. At the local level, taxation usually takes the form of license fees.

The nonmonopoly States tax distilled spirits at rates ranging from 50 cents to $3 per gallon (table 5). In 12 of these States, the tax ranges from $1 to $1.50 per gallon, and in 9 States, the tax range is from $2 to $3 per gallon. In addition, some of the monopoly States tax distilled spirits, generally in terms of a percentage of retail price. Vermont, a monopoly State, taxes distilled spirits at $3.60 a gallon.

The increase in the Federal tax rate to $12 should not result in a reduction in State revenues from distilled spirits compared with recent levels. It is estimated that the increase in consumer incomes, due in part to the defense program, would approximately offset the effect of the increase in tax rate on consumption.

IX. COMPARISON WITH BRITISH AND CANADIAN TAXES

In Canada distilled spirits are taxed at a rate equivalent to $8.77 per United States proof gallon.

Great Britain taxes distilled spirits at $21.54 per United States proof gallon.

[8] Annual Report of the Commissioner of Internal Revenue, fiscal year ending June 30, 1950, p. 224.

TABLE 1.— *Types of distilled spirits available for consumption as beverages, fiscal year 1950*

Type of product	Quantity (millions of wine gallons)			Percentage distribution		
	Bottled domestically	Imported	Total	Bottled domestically	Imported	Total
Whisky	139.7	12.7	152.4	86.7	91.4	87.1
Gin	13.5	.1	13.6	8.4	.7	7.8
Cordials and liqueurs	4.5	.2	4.7	2.8	1.4	2.7
Brandy	2.2	.6	2.8	1.4	4.3	1.6
Rum	.6	.2	.8	.4	1.4	.5
Alcohol	.1	(1)	.1	.1		.1
Other spirits	.6	.1	.7	.4	.7	.4
Total	161.1	13.9	175.1	100.0	100.0	100.0

[1] Less than 20,000 wine gallons.

NOTE.—Figures are rounded and will not necessarily add to totals.

Source: Annual Report of the Commissioner of Internal Revenue, for the fiscal year ended June 30, 1950 and the Bureau of the Census.

TABLE 2.—*Number of corporation income tax returns, receipts and net income of distillers and distributors of distilled spirits 1938–47*

[Money figures in millions]

Year	Returns with net income			Returns with no net income		
	Number of returns	Total compiled receipts	Net income after tax [1]	Number of returns	Total compiled receipts	Deficit
	Distillers, rectifiers and blenders					
1938	106	$351.6	$20.3	208	$74.5	$4.4
1939	94	346.8	18.2	154	85.5	5.0
1940	123	421.6	23.6	116	75.0	4.0
1941	152	659.8	29.0	69	22.3	.8
1942	167	874.6	36.8	61	15.2	1.4
1943	157	1,076.3	34.2	41	18.8	.7
1944	157	1,271.3	33.5	38	36.4	1.1
1945	147	1,755.9	46.8	60	63.4	3.1
1946	154	2,027.8	110.3	74	73.9	3.1
1947	90	1,603.6	99.4	117	196.5	8.5
	Wholesalers					
1938	(2)	(2)	(2)	(2)	(2)	(2)
1939	(2)	(2)	(2)	(2)	(2)	(2)
1940	794	$796.1	$13.6	547	$106.3	$3.0
1941	908	1,131.0	20.0	417	85.9	1.6
1942	979	1,504.2	24.1	296	57.4	1.4
1943	1,014	1,592.3	33.8	153	22.3	.7
1944	932	2,092.2	41.8	165	39.6	.7
1945	956	2,490.4	45.0	238	92.7	3.5
1946	1,284	3,675.8	135.5	320	124.2	3.0
1947	1,194	3,446.0	99.6	629	356.2	16.1
	Retail package liquor stores					
1938	547	$37.2	$0.5	1,070	$41.2	$1.1
1939	654	45.0	.7	1,008	40.3	1.0
1940	733	56.3	.8	970	41.1	.9
1941	900	75.1	1.2	882	38.3	.9
1942	1,171	116.3	2.0	634	32.3	.6
1943	1,484	160.1	4.5	298	13.4	.3
1944	1,416	168.3	4.6	275	15.6	.3
1945	1,489	197.6	5.5	238	16.2	.4
1946	1,743	274.8	9.1	294	24.1	.7
1947	1,595	257.1	6.3	687	63.4	2.4

[1] Net income after corporation income, excess profits and declared value excess profits taxes.
[2] Not available.

Source: Statistics of Income, pt. 2.

TABLE 3.—*Distilled spirits: Tax-paid withdrawals, production at registered and fruit distilleries, and stocks in internal revenue bonded warehouses, fiscal years 1935–51*

[In millions of tax gallons] [1]

Fiscal year	Tax-paid withdrawals				Production	Stocks in bonded warehouses at end of fiscal year [2]
	Total	Distilled spirits		Ethyl alcohol		
		Domestic	Imported			
1935	82.5	58.1	7.5	17.0	169.1	160.8
1936	110.2	76.3	9.8	24.1	253.9	310.8
1937	136.2	87.7	16.1	32.3	259.0	462.6
1938	129.2	85.9	14.3	29.0	150.2	497.5
1939	125.7	92.4	11.1	22.2	145.3	522.1
1940	140.7	104.0	12.4	24.3	143.5	525.4
1941	141.8	102.7	11.2	27.9	175.2	551.4
1942	157.7	119.3	[3] 13.5	24.9	[4] 158.0	587.8
1943	154.6	131.2	[3] 17.8	5.7	[4] 39.9	476.3
1944	142.2	84.3	[3] 51.7	6.2	[4] 23.8	376.3
1945	168.6	114.5	[3] 26.3	27.8	[4] 128.2	338.2
1946	197.9	130.9	[3] 19.7	47.3	[5] 305.1	420.3
1947	189.1	126.4	[3] 15.6	47.1	315.2	525.8
1948	159.4	108.4	[3] 12.2	38.8	244.1	594.7
1949	155.2	100.9	[6] 13.5	40.8	266.5	677.3
1950	158.2	103.6	14.0	40.6	208.2	708.6
1951 [7]	(8)	88.3	(8)	31.0	255.1	808.9

Source: Annual Reports of the Commissioner of Internal Revenue; press releases of Bureau of Customs and Bureau of Internal Revenue, Accounts and Collections Unit.

[1] A tax gallon for spirits of 100 proof or over is equivalent to the proof gallon. For spirits of less than 100 proof the tax gallon is equivalent to the wine gallon. On most domestic distilled spirits the tax is paid on the proof gallon. Most distilled spirits imported are somewhat below 100 proof and the tax is paid on the wine gallon.

[2] Represents original entry gallons.

[3] Estimated from sales of revenue stamps.

[4] Exclusive of unfinished and high-proof spirits for industrial purposes.

[5] Includes 31.5 million tax gallons produced for industrial purposes.

[6] Estimated from collections.

[7] For period July 1, 1950, to Jan. 31, 1951.

[8] Not available.

TABLE 4.—*Distilled spirits: Consumer expenditures and quantity consumed, 1935–50*

Calendar year	Consumer expenditures		Quantity consumed (wine gallons)	
	Amount	Percent of disposable income	Total	Per capita
	Millions		*Millions*	
1935	$996	1.7	89.7	0.70
1936	1,304	2.0	122.1	.95
1937	1,469	2.1	135.4	1.05
1938	1,396	2.1	126.9	.98
1939	1,510	2.2	134.7	1.03
1940	1,675	2.2	145.0	1.10
1941	1,980	2.2	158.2	1.20
1942	2,685	2.3	190.2	1.44
1943	3,200	2.4	145.5	1.10
1944	3,850	2.6	166.7	1.26
1945	4,400	2.9	190.1	1.44
1946	5,060	3.2	231.0	1.65
1947	4,560	2.7	181.6	1.27
1948	3,900	2.1	171.0	1.17
1949	3,650	1.9	169.5	1.14
1950	(1)	(1)	190.0	1.26

[1] Not available.

Source: Department of Commerce, press release of June 20, 1949, supplemented by unpublished data; Survey of Current Business, July 1950; and Distilled Spirits Institute, Apparent Consumption of Distilled Spirits, 1949 and December 1950.

TABLE 5.—*State excise taxes on distilled spirits,*[1] *April 1, 1951*

[Per gallon]

50 cents to $1	$1 to $1.50	$1.50 to $2	$2 to $3
California	Arizona	Colorado	Arkansas [2]
District of Columbia	Connecticut	Louisiana	Florida [3]
Missouri	Delaware	New Jersey	Indiana
Nevada	Georgia	New York	Massachusetts [4]
South Dakota	Illinois		Minnesota
	Kansas		North Dakota [5]
	Kentucky		South Carolina
	Maryland		Tennessee
	Nebraska		Wisconsin
	New Mexico		
	Rhode Island		
	Texas		
Total, 5	Total, 12	Total, 4	Total, 9

[1] Mississippi and Oklahoma prohibit the sale of liquors of alcoholic content above 4 percent and 3.2 per-percent, respectively. 16 States have liquor monopoly systems (Alabama, Idaho, Iowa, Maine, Michigan, Montana, New Hampshire, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming). Some of the monopoly States impose taxes generally expressed in terms of a percentage of retail price. Vermont, however, imposes a tax of $3.60 per gallon and thus falls in the group of States with highest taxes. North Carolina has county-operated stores in counties which vote in favor of their operation and the State imposes a tax of 8½ percent of retail price.

[2] Effective Mar. 19, 1951, a special alcoholic beverage excise tax of 3 percent is levied upon all retail receipts from sale of liquors, cordials, liqueurs, and specialties.

[3] Includes the tax of $1.20, plus 2 additional taxes of 72 cents and 25 cents. The tax on beverages containing more than 48 percent alcohol by weight is $4.34, including the tax of $2.40 plus 2 additional taxes of $1.44 and 50 cents.

[4] Includes permanent tax of $1.50, plus an additional tax of 50 cents beginning Aug. 1, 1945, and a temporary additional tax of 25 cents for the period between July 1, 1949, and June 30, 1951.

[5] Includes permanent tax of 60 cents, plus an additional tax of 80 cents, effective until July 1, 1961, plus the wholesale liquor transactions tax of $1.10.

APPENDIX B

Beer

I. PROPOSAL

It is proposed to increase the excise tax on beer from $8 to $12 per barrel. The proposed increase is estimated to yield $287 million for a full year of operation at levels of income estimated for 1952. At the present rate of tax, the estimated yield for fiscal 1952 is $670 million.

II. TAX BASE

The tax applies to domestic or imported fermented malt beverages containing one-half of 1 percent or more of alcohol by volume. The chief products included in the tax base are beer, lager beer, porter, and ale. Payment of tax is required of the brewer at the time the product is removed from the brewery for consumption or sale.

III. CHANGES IN THE TAX SINCE 1913

A tax on fermented malt liquors has been in effect continuously since 1862. The various rates in effect since 1913 are shown below:

[Per barrel of 31 gallons]

Revenue Act	Effective date	Rate	Revenue Act	Effective date	Rate
	Dec. 31, 1913	$1.00	1934 [2]	Jan. 12, 1934	$5.00
1914	Oct. 23, 1914	1.50	1940	July 1, 1940	6.00
1917	Oct. 3, 1917	3.00	1942	Nov. 1, 1942	7.00
1918	Feb. 25, 1919	6.00	1943	Apr. 1, 1944	8.00
1933 [1]	Apr. 7, 1933	5.00			

[1] Act of Mar. 22, 1933 (Public, No. 3, 73d Cong., 1st sess.), which legalized the sale of beer containing not more than 3.2 percent alcohol by weight. The tax on beer of greater alcoholic content was not reduced until the Liquor Taxing Act of 1934.
[2] Liquor Taxing Act of 1934.

IV. REVENUE COLLECTIONS, 1936–52

The tax on beer is the third most important source of excise revenue, being exceeded only by collections from the excises on distilled spirits and cigarettes. In the fiscal year 1950 collections from the tax on beer were nearly one-half as great as the tax on distilled spirits and constituted 30 percent of total liquor taxes.

Fiscal year	Collections (millions)	Fiscal year	Collections (millions)
1936	$244.6	1945	$638.7
1937	277.5	1946	650.8
1938	269.3	1947	661.4
1939	259.7	1948	697.1
1940	264.6	1949	686.4
1941	316.7	1950	667.4
1942	366.2	1951 [1 2]	667.0
1943	455.6	1952 [1 2]	670.0
1944	559.2		

[1] Present law.
[2] Estimated.

V. INDUSTRY BACKGROUND AND OUTLOOK

A. Number of producers

When the sale of beer was legalized in 1933, the industry was reestablished largely on the basis of plant facilities which existed prior to prohibition, although some new breweries were constructed. The number of breweries operated was then only about one-half as large as the number operated just prior to World War I. The maximum number of breweries operated after 1933 was 750 in the fiscal year 1935, following which the number declined steadily to 407 in 1950 (table 1). Total plant capacity, however, has continued to rise due to increases in the size of operating units.

In 1935, the four largest companies produced only about 12 percent of the total value of malt liquors, and the eight largest, 18 percent of the total value.[8]

By 1947 these two groups of firms accounted for 21 percent and 30 percent of total output, respectively.[9]

B. Production

The production of fermented malt liquors has expanded over the past decade. Malt and grain supplies were cut back moderately during the war, but the industry compensated for this by decreasing the alcoholic content of the beer. As a result, output increased almost without interruption during the war and early postwar years, reaching a peak of 91 million barrels in fiscal 1948 (table 1). Production has since declined slightly but is still near record levels. The fiscal 1950 output of 89 million barrels exceeded output during any of the war years, and exceeded output for the prewar year 1940 by more than 60 percent.

C. Consumption

From the resumption of legal sale of beer in 1933 to the outbreak of World War II, aggregate consumption of beer remained below the peak year reached in the preprohibition period. Per capita consumption was about 35 percent below the years just preceding World War I,[10] due in part to increased consumption of soft drinks. Beer consumption increased sharply during the war. By 1945, consumption was more than 45 percent above the highest prewar year, 1937 (table 2). Per capita consumption again approached the preprohibition peak. Consumption continued at a high level in the postwar period.

Consumption of beer in bottles and cans increased over one and one-half times between 1937 and 1950. The consumption of draft beer is now lower than at any time since 1934. Data for consumer expenditures on beer for 1950 are not available, but the amount was probably in excess of $4.5 billion.

D. Prices and competition

A limited number of brands of beer are distributed on a national basis, but these brands do not all compete in all markets. Because transportation costs are high there are numerous market areas, with

[8] National Resources Committee, The Structure of the American Economy, pt. I, Basic Characteristics, June 1939, pp. 250–251.

[9] Selected census data transmitted by the Secretary of Commerce on December 1, 1949, in Hearings Before the Subcommittee on Study of Monopoly Power of the Committee on the Judiciary, House of Representatives, 81st Cong., 1st sess., pp. 1437–1453.

[10] Statistical Abstract of the United States, 1950, p. 787. In the years 1911–14 average consumption was slightly more than 20 gallons per capita and in the fiscal years 1937–40 about 13 gallons per capita.

some overlapping. In each market area, the national brands compete with each other and with local breweries.

Competition is relatively keen in the Northeast and North Central States where the production of beer is large in relation to local demand. Competition is weaker in the South and in parts of the Southwest where consumption substantially exceeds local production. As a result, there is considerable regional variation in the price of beer. In September 1950, for instance, the retail price of a 12 ounce bottle of premium beer averaged 24.6 cents in Atlanta, 17.8 cents in Salt Lake City, and 12.3 cents in Newark (table 3).

Nationally distributed or so-called premium brands generally do not compete on a price basis and generally sell for considerably more than other brands. Producers attempt to establish consumer preference for these brands by intensive advertising. Locally produced beers compete largely on a price basis although there has been a growing effort to establish brand preference by brewers not having national distribution. The increase in the proportion of beer sold in bottles and cans has made it possible for producers to place increasing emphasis on brand preference. The proportion of beer bottled increased from about 25 percent in the fiscal years 1934–36 to about 70 percent in the fiscal year 1950 (table 1).

There are no reliable data on the movement of beer prices since the repeal of prohibition. However, judging from the relationship between tax-paid withdrawals and consumers' expenditures on beer, retail beer prices increased about 25 percent above prewar levels during World War II (table 2). Retail prices increased another 15 percent in the early postwar years but have since remained relatively stable. Wholesale prices rose moderately in the late summer and fall of 1950. These increases appear to have had only a slight effect on the retail price of beer. The price on bottles or cans for off-premise consumption increased and the size of the glass used to serve draught beer decreased in some cases.

E. Profits

The beer industry showed large increases in profits during the war. In 1939, nearly one-half the breweries filing income-tax returns showed a deficit, but by 1945 over 95 percent reported profits (table 4). Over the same period the net income before taxes of these corporations rose from $77 million to $200 million. Profits before taxes continued to increase in the early postwar years, reaching $261 million in 1947, or more than 30 percent above the highest profits in any war year. Record levels of sales in 1950 and published profits data of major firms indicate that generally the industry is now enjoying relatively high profits.

F. Outlook for the industry

The outlook for the beer industry for the next few years is favorable. The continuation of high-income levels should strengthen demand already at record levels. Should the national emergency become more critical, grain and other materials may become short. However, judging from experience during World War II, output would remain large, although supply might be stretched by reductions in the alcoholic content of the product.

Defense restrictions on the use of tin cans for beer may affect supply and the revenue. For the second quarter of 1951 tin available

for beer cans has been cut 25 percent below usage in the second quarter of 1950.[12] Since about 20 percent of all beer is sold in cans, the present tin restriction affects only about 5 percent of the total supply of beer. However, further large cut-backs in tin cans for beer are anticipated in the near future. Although short at present, bottles will eventually be available to replace tin cans, according to the National Production Authority.[13] To some extent, the beer industry can also compensate for shortages of cans through more efficient use of bottles.

VI. ECONOMIC EFFECTS OF THE PROPOSED TAX INCREASE

A. Impact on consumers

The proposed increase in the tax on beer would raise the ratio of tax to retail price substantially. Assuming the addition of the proposed increase to prices paid by consumers, the tax on beer would amount to 21 percent of average retail price including tax, compared with 15 percent under present law.

For a 12-ounce bottle of beer, the tax increase would be equivalent to an increase in retail price of 1.21 cents if no mark-up is taken on the tax increase, the policy for which has not been established. The tax increase would represent an increase of from 0.6 to 0.8 cent for a glass of draught beer, depending on the size of the glass.

The limited data that are available indicate that consumers' expenditures on beer are proportional to the size of the family income.[14]

Beer is not included in the old consumers' price index of the Bureau of Labor Statistics, but is included in the adjusted price index issued in the early part of 1951. The proposed tax increase would raise the revised price index by 0.17 percent. Beer is not included in the index of prices paid by farmers used in the determination of parity prices of farm products.

B. Impact on business

Under anticipated market conditions in the next few years, producers would generally be able to shift the tax increase forward to consumers. Sales would be affected only moderately and even with the proposed tax increase would be at or near record levels. The recent high levels of consumption and prices suggest that the profit position of the industry will be highly favorable in the next few years.

The proposed increase in the tax on beer would not be likely to cause consumers to shift to other alcoholic beverages, since the Treasury's program would maintain an approximate alinement with the taxes on distilled spirits and wine. Under the proposed schedules, the tax on beer, amounting to about 21 percent of retail price, would be substantially lower than on distilled spirits which would be taxed at 46 percent of retail price, or on sweet wine which would be taxed at 31 percent.

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[12] National Production Authority, Order M–25.

[13] Statement of Manly Fleischmann, Administrator of the National Production Authority in hearings before the Committee on Ways and Means, 82d Cong., 1st sess., on Revenue Revision, 1951, March 21, 1951.

[14] Data for 1941 expenditures are reported in Department of Labor, Family Spending and Saving in Wartime, Bulletin No. 822, 1945, p. 78. These are qualified by indications that in the survey consumers may have understated their expenditures on alcoholic beverages by as much as two-thirds.

VII. ADMINISTRATIVE AND COMPLIANCE CONSIDERATIONS

The proposed tax increase would not add to problems of tax administration or compliance. Under present law, the tax on beer does not give rise to any unusual administrative problems. Unlike distilled spirits, there is no appreciable illicit production of beer.

VIII. FEDERAL-STATE RELATIONS

Like other alcoholic beverages, beer is taxed by the States as well as by the Federal Government. All 48 States and the District of Columbia tax beer, with the rates ranging from 50 cents to $13 per barrel (table 5). Fourteen have tax rates between $1 and $1.50 per barrel, and nine have rates ranging from $2 to $3 per barrel.

State tax revenues would not be affected materially by the proposed increase in the Federal tax.

IX. COMPARISON WITH CANADIAN AND BRITISH TAXES

The Canadian and British units of measure and method of computing tax differ from those used in the United States. When adjusted to United States standards, the Canadian tax would amount to $11.62 a barrel of 31 United States gallons and the British tax to $32.25.

TABLE 1.—*Number of breweries operated, production, and withdrawals of fermented malt liquors, fiscal years 1934–51*

[Production and withdrawals in millions of barrels]

Fiscal year	Number of breweries operated	Production	Withdrawals [1]			
			Total	Tax paid		
				Total	For bottling and canning	For kegs, etc.
1934	714	37.7	32.7	32.3	8.0	24.3
1935	750	45.2	42.8	42.2	11.0	31.3
1936	732	51.8	49.3	48.8	16.3	32.4
1937	720	58.7	55.9	55.4	22.9	32.5
1938	696	56.3	54.4	53.9	24.3	29.7
1939	653	53.9	52.2	51.8	24.7	27.1
1940	611	54.9	53.4	53.0	27.0	26.0
1941	574	55.2	53.3	52.8	27.8	25.0
1942	530	63.7	61.7	60.9	35.3	25.6
1943	491	71.0	69.3	68.6	41.1	27.5
1944	469	81.7	78.6	77.0	47.2	29.7
1945	468	86.6	83.6	79.6	50.4	29.2
1946	471	85.0	83.6	81.3	53.3	28.0
1947	465	87.9	83.6	82.6	54.9	27.8
1948	466	91.3	88.0	87.0	59.5	27.5
1949	440	89.7	86.8	85.8	60.0	25.8
1950	407	88.8	85.0	84.2	59.6	24.6
1951, first half	[2]	43.6	43.6	43.0	31.2	11.8

[1] The difference between total withdrawals and tax-paid withdrawals represents tax-free withdrawals and tax-free beer consumed on brewery premises.

[2] Not available.

Source: Annual Reports of the Commissioner of Internal Revenue.

TABLE 2.—*Disposable income, tax-paid withdrawals of beer and consumer expenditures for beer, 1934–50*

Calendar year	Tax-paid withdrawals of beer (millions of barrels)	Consumer expenditures for beer		Calendar year	Tax-paid withdrawals of beer (millions of barrels)	Consumer expenditures for beer	
		Amount (millions)	Per barrel of beer tax-paid			Amount (millions)	Per barrel of beer tax-paid
1934	40	$1,325	$33.12	1943	73	$3,025	$41.43
1935	45	1,530	34.00	1944	80	3,510	43.87
1936	53	1,850	34.90	1945	82	3,720	45.36
1937	56	1,980	35.35	1946	80	3,805	47.56
1938	51	1,845	36.17	1947	87	4,555	52.35
1939	53	1,910	36.03	1948	85	4,445	52.29
1940	52	1,935	37.21	1949	85	4,435	52.17
1941	57	2,250	39.47	1950	84	(1)	(1)
1942	65	2,575	39.61				

Source: Annual Reports of the Commissioner of Internal Revenue; and Department of Commerce press release dated June 20, 1950, "Total Expenditures for Alcoholic Beverages," supplemented by unpublished data.

[1] Not available.

TABLE 3.—*Retail prices of bottled beer in 9 cities, Sept. 15, 1950* [1]

City	National brands		Other brands	
	Average price	Range of prices	Average price	Range of prices
	Cents	*Cents*	*Cents*	*Cents*
Atlanta	24.6	23–25	20.1	18–22
Baltimore	17.1	17–18	10.8	10–11
Cincinnati	16.0	12–18	11.6	9–14
Houston	16.7	15–19	13.4	12–16
Newark	12.3	12–15	12.1	12–13
New Haven	13.7	12–17	12.2	11–13
Portland, Oreg	18.1	15–20	15.2	12–16
St. Louis	13.4	10–15	10.2	10–15
Salt Lake City	17.8	17–18	10.4	10–12

[1] Prices charged for a 12-ounce bottle, including Federal, State, county, and city taxes.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 4.—*Breweries and malt producers: Number of corporation returns, compiled receipts, net income or deficit, and income after taxes, 1938–47*

[Dollar amounts in millions]

Year	Total number of returns	Returns with net income				Returns with no net income		
		Number of returns	Total compiled receipts	Net income	Income after taxes	Number of returns	Total compiled receipts	Deficit
1938	650	281	$698	$62.8	$51.8	369	$158	$10.5
1939	615	326	774	77.0	63.7	289	115	7.9
1940	562	262	743	62.7	48.3	300	154	11.0
1941	514	296	954	88.5	57.6	218	94	6.7
1942	485	368	1,193	120.7	60.8	117	48	2.5
1943	477	428	1,530	171.9	76.1	49	18	.9
1944	459	427	1,804	184.9	73.0	32	14	.5
1945	454	434	1,936	200.3	76.5	20	26	.5
1946	453	432	1,947	239.4	148.4	21	14	.5
1947	457	315	2,222	261.2	163.2	142	120	13.7

Source: Statistics of Income, pt. 2.

TABLE 5.— *State excise taxes on beer, January 1, 1951*

[Per 31-gallon barrel]

50 cents to $1	$1 to $1.50	$1.50 to $2	$2 to $3	$3 to $4
California	Connecticut	Kentucky	Arizona	Alabama
Colorado	Delaware	New Mexico	Indiana	Idaho
Maryland	District of Columbia		Iowa	Kansas
Missouri	Illinois		Massachusetts	New Hampshire
Nevada	Michigan		Minnesota	Tennessee
Wyoming	Montana		Ohio	Virginia
	Nebraska		Pennsylvania	
	New Jersey		South Dakota	
	New York		West Virginia	
	Oregon			
	Rhode Island			
	Texas			
	Washington			
	Wisconsin			
Total, 6	Total, 14	Total, 2	Total, 9	Total, 6

$4 to $5	$5 to $8	$9	$10	$13
Maine	Arkansas	Georgia [2]	Louisiana	Mississippi
North Dakota [1]	Florida			South Carolina
Utah	North Carolina			
Vermont	Oklahoma			
Total, 4	Total, 4	Total, 1	Total, 1	Total, 2

[1] Includes permanent excise tax of $2.48 per barrel and an additional tax of $2.48 per barrel for the period April 1, 1949, to July 1, 1961.
[2] After June 30, 1951, the tax will be $4.50 per barrel.

APPENDIX C

Wines

I. PROPOSAL

The proposed increases in the tax rates on wine are shown below:

Tax classification	Present rates	Proposed rates
Still wine:		
Under 14 percent alcohol	15 cents per gallon	50 cents per gallon.
14 to 21 percent alcohol	60 cents per gallon	$1.50 per gallon.
21 to 24 percent alcohol	$2 per gallon	$3 per gallon.
Sparkling wine:		
Natural	15 cents per half pint	22 cents per half pint.
Artificially carbonated	10 cents per half pint	15 cents per half pint.

The estimated yield of the proposed tax increases is $90 million for a full year of operation at levels of income anticipated for fiscal year 1952, compared with $80 million estimated revenue at the present rate of tax for fiscal 1952.

II. CHANGES IN THE TAX SINCE 1913

Wines have been taxed continuously since 1914, the tax remaining in effect during the period of prohibition. Prior to 1914 a tax was imposed on artificial or imitation wine, but this tax apparently was superseded by the tax levied under the Revenue Act of 1916. The rates and effective dates of changes in the various wine taxes since 1913 are shown below:

Changes in tax rates since 1913

Revenue Act	Effective date	Rate					
		Still wines [1] (per wine gallon)			Sparkling wines		Liqueurs, cordials, etc.[2]
					Natural	Artificially carbonated	
					Per ½ pint, or fraction thereof		
		Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
1914	Oct. 22		[3] 8		5	5	1½
1916	Sept. 9	4	10	25	3	1½	[4]
1917	Oct. 4	8	20	50	6	3	3
1918	Feb. 25, 1919	16	40	100	12	6	6
1928	June 30	4	10	25	[4]	[4]	[4]
1934 [5]	Jan. 12	10	20	40	5	2½	2½
1936 [6]	June 27	5	10	20	2½	[7] 1¼	[7] 1¼
1940	July 1	6	18	30	3	1½	1½
1941	Oct. 1	8	30	65	7	3½	3½
1942	Nov. 1	10	40	100	10	5	5
1943	Apr. 1, 1944	15	60	200	15	10	10

[1] Beginning with the Revenue Act of 1916, the rates shown are, respectively, for wine containing by volume (1) not over 14-percent alcohol, (2) over 14-percent but not over 21-percent alcohol, and (3) over 21-percent but not over 24-percent alcohol. Wine containing over 24 percent of alcohol by volume is classified as a distilled spirit and taxed as such.

[2] Applicable where product is made from fortified wine and distilled spirits. Cordials and liqueurs made from unfortified wine are subject to the rectification tax.

[3] Proportional rates provided for fractional parts of a gallon.

[4] No change.

[5] Liquor Taxing Act of 1934.

[6] Liquor Tax Administration Act of 1936.

[7] One-pint unit.

III. REVENUE COLLECTIONS, 1936–52

The taxes on wines produce the least revenue of the taxes on the three broad groups of alcoholic beverages. For the fiscal year 1950 collections from the taxes on wines amounted to only 3.3 percent of the collections from all taxes on alcoholic beverages.

Collections, fiscal years, 1936–52

[In millions]

Fiscal year:	*Collections* [1]	Fiscal year—Continued	*Collections* [1]
1936	$10. 4	1945	$47. 4
1937	9. 1	1946	60. 8
1938	6. 9	1947	57. 2
1939	7. 8	1948	61. 0
1940	9. 4	1949	65. 8
1941	12. 8	1950	72. 6
1942	25. 2	1951, estimated	73. 0
1943	33. 7	1952, estimated [2]	80. 0
1944	34. 1		

[1] Includes collections from the tax on brandy used for fortification of wines which was in effect prior to July 1, 1940.
[2] Present law.

IV. BACKGROUND AND INDUSTRY OUTLOOK

A. The tax base

Wine for tax purposes may be divided into three major groups. In the first group, comprising about one-fourth of the present tax base, are natural or table wines, such as sauterne, claret, or burgundy, which have an alcoholic content of less than 14 percent. The second major group, which accounts for about three-fourths of the tax base, is composed of sweet or dessert wines, such as port, sherry, tokay, and muscatel, which have an alcoholic content of more than 14 percent and not more than 21 percent. These wines derive their high alcoholic content from being fortified with brandy or alcohol before the fermentation is completed. The third group, a large portion of which is imported, covers the sparkling wines, such as champagne and sparkling burgundy, and accounts for only about 1 percent of the total tax base.

B. Geographic concentration of the industry

The domestic wine industry is concentrated geographically in two principal sections, the Eastern States and California. Although New York accounts for a large part of the sparkling wines, California overshadows all other areas in the wine industry, accounting for over 90 percent of total wine production for the United States.

The predominance of California in the wine industry is due to its importance as a producer of grapes. In 1950, California accounted for 2.4 million tons of grapes or 91 percent of the total output.[15] Although the remainder of the grape production was spread over 20 States, only 2, New York and Michigan, accounted for as much as 1 percent of total output.

[15] Department of Agriculture, Farm Production and Value of Principal Fruits, 1949 and 1950 Seasons, p. 11.

C. Relationship to production of grapes [16]

Wine production in the United States is an integral part of the grape industry, absorbing from one-third to one-half of the total crop (table 1). The proportion of the grape crop used for wine depends not only on conditions in the wine industry but also on the demand for raisins and for grapes as fresh fruit. Since practically all grapes are suitable for wine, varieties which are customarily used for fresh fruit and raisins may be turned into wine whenever the demand for wine is unusually large. Wine affords a means of converting perishable grapes into a semiperishable product. For this reason, fluctuations in wine production are considerably larger than fluctuations in grape production.

After the repeal of prohibition in 1933, the wine industry resumed production and rapidly acquired substantial stocks. During World War II, the production of wine was curtailed because of high domestic demand for fresh grapes and heavy Government purchases of raisins for export. Production of still wines reached a low in fiscal 1943, falling considerably short of tax-paid withdrawals and stocks dropped sharply. Thereafter, production climbed, reaching a peak of about 170 million wine gallons in fiscal 1947. The output of still wine for the calendar year 1950 amounted to 131 million gallons. This was the third highest production on record, being exceeded only by output in the calendar years 1946 and 1948.

About 75 percent of the producers of wine and brandy grow their own grapes and account for 50 percent of the production of wine and brandy.[17] In addition, cooperative wineries owned by vineyardists produce an estimated 25 percent. Only about 25 percent of the production is represented by the so-called commercial wineries, which generally purchase their grapes.

In the past, wine production has been conducted on a relatively small scale, but there appears to be an increasing concentration of production among fewer producers. Since 1935 the number of wineries producing still wines has declined from about 1,100 to 750 (tables 2 and 3). In 1947, the four largest firms produced over one-fourth of the total output for the industry, while the largest eight firms accounted for over one-half of the total output.[18]

D. Consumption

As with other alcoholic beverages, taste and social considerations probably play the major role in consumer preference for wine. Nonalcoholic beverages generally are much cheaper than wine but give an essentially different type of satisfaction. On the other hand, the fact that wine is considerably cheaper than most distilled spirits is an important consideration in influencing the demand for sweet or dessert wine, which is comparable in alcoholic strength to many types of mixed drinks commonly made from distilled spirits.

The consumption of wine shows a marked upward trend (table 4). In 1950, the quantity of wine consumed reached an all-time high of about 135 million gallons, exceeding 1940 consumption by more than

[16] The interrelationship between the production of grapes and wine as well as the impact of the proposed tax increase on farmers is discussed in greater detail in sec. V, B.

[17] Tariff Commission, War Changes in Industry Series, Grapes and Grape Products, 1947, pp. 9, 34.

[18] Selected census data transmitted by the Secretary of Commerce on December 1, 1949, in hearings before the Subcommittee on Study of Monopoly Power of the Committee on the Judiciary, House of Representatives, 81st Cong., 1st sess., pp. 1437–1453.

55 percent. The increase in consumption was substantially greater for dessert wine than table wine.

E. Prices

Prices received by wineries have fluctuated greatly. In the years immediately preceding World War II, the average price for California wine at the winery was about 30 cents per gallon for dessert wine and 20 cents per gallon for table wine. By 1947, however, the price of dessert wine had risen to 69 cents per gallon, and the price of table wine to 64 cents per gallon. After a substantial decline in 1948 and 1949, prices in 1950 approached record levels with dessert wine selling for an average of 73 cents per gallon at the winery and table wine at an average of 47 cents per gallon.[19] Variations in retail prices apparently are relatively smaller because of the importance of transportation and other marketing costs.

F. Outlook for the wine industry

In view of the marked increase in the consumption of wine and the high level of wine prices, the outlook for the wine industry within the next few years seems favorable. The continuation of high income levels should sustain the upward trend in consumption. If durable goods become short as the national emergency continues, additional purchasing power will be available for expenditure on such nondurable goods as wine.

Wine stocks were unusually low in June 1950. As a result of increased demand for wine, the industry has since added to these stocks. However, stocks are still at relatively low levels. In January 1951, the most recent period for which data are available, stocks were smaller than for the corresponding date in any year since 1946.

V. ECONOMIC EFFECTS OF THE PROPOSED TAX INCREASE

A. Consumers

The proposed increases in the taxes on wines would raise the ratio of tax to retail price substantially. Assuming that the proposed increases were fully reflected in the average prices to consumers, the tax on table wine would amount to 13 percent of retail price including tax, compared with 4 percent under present law. On sweet wine, the tax would be raised from 15 percent to about 30 percent of the average retail price, and on sparkling wine from 25 percent to 30 percent of retail price.

The amount of tax increase per bottle is substantially greater on the dessert wines which are considered competitive with distilled spirits. The proposed increase amounts to 18 cents per bottle compared with the proposed increase of over 50 cents per bottle in the case of distilled spirits. The increase proposed on dry wines would be only 7 cents per bottle.

Nearly all of the increase in revenue would be derived from the higher tax on dessert wines. This is the type of wine consumed primarily for its alcoholic content. Although available information on consumer expenditures for wine does not segregate consumption of

[19] Mehren, G. L., The Impact of the Grape Industry on Increased Federal Excise Taxation of Wines, University of California, February 1951, p. 8.

dessert and table wines,[20] consumption of dessert wines is probably relatively greater among the high income groups than the low income groups. Home production of wine, which is tax-free to the extent of 200 gallons per annum, is utilized more frequently by the lower income groups. Estimated home production of table wines is between 20 and 30 million gallons, or over two-thirds of the commercial consumption of this type.[21]

Since wine is not included in the Consumers' Price Index of the Bureau of Labor Statistics, the proposed tax increase would not affect the level of this index. The proposal would also have no effect on the parity prices of farm products since wine is not included in the index of prices paid by farmers.

B. Impact on producers

Under the favorable demand conditions resulting from the mobilization effort, producers should be in a position to shift most of the tax increase forward to consumers. The increase in price, including tax, may be expected to reduce consumption somewhat.

Despite the tax increases enacted during World War II, the profits of wine producers reached very high levels (table 5). The recent high levels of consumption and prices suggest that the profit position of the industry will again be highly favorable under the mobilization program.

Since the Treasury's program would also raise the taxes on distilled spirits and beer, the proposed tax increase on wine would not be likely to induce consumers to shift to other alcoholic beverages. Under the proposals, table wine would be taxed less heavily than beer in relation to retail price, including tax—13 percent compared with 21 percent. Similarly, the fortified sweet wines would be taxed the equivalent of about 30 percent of retail price, while the tax on distilled spirits would amount to 46 percent of retail price. The imposition of higher taxes on distilled spirits and beer requires increasing the taxes on wine for competitive reasons. During the past 10 years the increase in consumption of dessert wine has been greater than for other alcoholic beverages (table 6).

It is difficult to determine the effect of the proposed tax increase on growers of grapes. In the current situation, however, it seems unlikely that growers of grapes would suffer hardship if the proposed tax increase were adopted. As noted above, the production of wine is currently running at high levels, and the demand for grapes for wine purposes would continue to be strong. Moreover, the upward trend in wine consumption should facilitate to some degree any readjustment that the growers may have to make to the tax.

Another factor which would be helpful to growers in readjusting to the tax is the high price currently received for grapes. During most of the postwar period, the prices received by growers were substantially below wartime peaks (table 7). In 1950, however, the average price of grapes of $67.90 per ton was almost twice the average price for 1949. This is the third highest average annual price on record since the repeal of prohibition, being exceeded only by peaks reached in 1944 and 1946.

[20] Data for 1941 expenditures are reported in Department of Labor, Family Spending and Saving in Wartime, Bulletin No. 822, 1944, p. 78, but it is indicated that in the survey consumers may have understated their expenditures for alcoholic beverages by as much as two-thirds. Reported expenditures for wine were proportional to the size of family income for incomes under $5,000.

[21] George L. Mehren, Economic Situation and Market Organization in the California Grape Industries, Giannini Foundation of Agricultural Economics, May 1950, p. 59.

After allowing for the decrease in wine consumption that might be expected under the tax increases, the consumption of wine would probably exceed that for any year prior to 1950. This would indicate that under average crop expectations there would not be an excess of grape supplies for wine. As noted above, the use of grapes for wine increased in 1950 in order to replenish wine stocks.

On the basis of the average proportion of the crop used for wine, a 15-percent reduction in the wine crush would be equivalent to only a 6-percent reduction in total grape use. In 1949, the most recent year for which data are available, about 20 percent of the crop was sold as fresh fruit. The remainder was divided approximately equally between wine and raisins (table 1). However, over the past decade there has been considerable variation in the division of the grape crop for these various uses. In the war year 1943, heavy Government purchases of raisins for export purposes resulted in the use of 55 percent of the grape crop for raisin purposes, while only 30 percent was used for wine. On the other hand, in 1946, over 55 percent of the crop was crushed for wine, compared with 25 percent dried for raisins. The Federal Government over the past 15 years has given considerable support to the industry through the purchase of raisins, when grape supplies were excessive.

The outlook for nonwine use of grapes appears to be favorable. The relatively stable use of grapes as fresh fruit will be supported by the continuation of high-income levels. Under the conditions of world scarcity of food products, the industry is not likely to experience a curtailment in the demand for raisins as it has at times in the past.

TABLE 1.—*Sales and utilization of grapes, 1939–49*

Calendar year	Fresh sales	Canned	Dried	Crushed	Total sales
	Thousands of tons				
1939	601	11.0	989	809	2,410
1940	633	11.3	689	1,094	2,427
1941	624	18.0	840	1,209	2,690
1942	594	16.4	1,025	723	2,359
1943	426	13.0	1,606	889	2,933
1944	455	14.0	1,238	968	2,675
1945	525	11.0	969	1,237	2,743
1946	560	14.3	772	1,780	3,127
1947	659	23.0	1,225	1,102	3,009
1948	577	30.0	928	1,515	3,050
1949	553	25.0	1,049	1,008	2,635
	Percentage distribution				
1939	24.9	0.46	41.0	33.6	100
1940	26.1	.47	28.4	45.1	100
1941	23.2	.67	31.2	44.9	100
1942	25.2	.70	43.5	30.6	100
1943	14.5	.44	54.8	30.3	100
1944	17.0	.52	46.3	36.2	100
1945	19.1	.40	35.3	45.1	100
1946	17.9	.46	24.7	56.9	100
1947	21.9	.76	40.7	36.6	100
1948	18.9	.98	30.4	49.7	100
1949	21.0	.95	39.8	38.3	100

Source: Department of Agriculture, Agricultural Statistics, 1949, and Fruits (noncitrus): Production, Farm Disposition, Value and Utilization of Sales, 1945–50.

TABLE 2.—*Still wines: Wineries operated, production, tax-paid withdrawals, and stocks on June 30, fiscal years 1935–51*

[Thousands of wine gallons]

Fiscal year	Wineries operated	Production			Tax-paid withdrawals				Stocks on June 30 [2]
		Total	For use as wine	For use as distilling material	Domestic			Imported	
					Total [1]	Not over 14 percent alcohol	Over 14 and not over 21 percent		
1935	1,116	91,729	(3)	(3)	35,419	12,146	[4] 23,270	2,441	56,464
1936	1,245	170,876	(3)	(3)	47,484	15,790	[4] 31,691	2,521	78,545
1937	1,206	122,045	(3)	(3)	62,118	20,994	[4] 41,068	3,463	68,196
1938	1,175	228,726	(3)	(3)	61,329	21,353	[4] 39,938	3,046	102,120
1939	1,137	231,959	(3)	(3)	67,564	22,462	[4] 45,048	3,150	94,944
1940	1,090	212,368	(3)	(3)	82,571	24,673	57,809	3,901	93,421
1941	1,064	286,371	(3)	(3)	89,670	26,622	62,782	1,943	118,530
1942	1,010	313,706	127,548	186,158	103,499	30,135	73,051	1,099	134,175
1943	980	195,225	78,313	116,912	110,637	37,227	73,097	1,687	91,895
1944	911	264,853	100,175	164,677	87,259	37,481	49,764	8,821	95,229
1945	903	314,983	108,255	206,729	91,752	30,946	60,799	3,592	103,930
1946	880	379,936	119,696	260,240	110,584	31,542	79,027	3,030	103,374
1947	840	515,335	169,627	345,708	104,129	27,763	76,353	3,758	161,647
1948	821	314,328	105,425	208,903	111,801	25,354	86,441	2,032	149,201
1949	789	425,925	139,880	286,045	121,437	29,063	92,158	2,599	164,112
1950	758	297,857	102,967	194,890	135,581	32,308	103,044	3,101	128,433
First 7 months of fiscal years:									
1950	(3)	288,522	98,559	189,963	80,844	19,227	61,493	1,683	[5] 130,964
1951	(3)	413,452	128,148	285,303	79,206	21,222	57,853	2,776	[5] 177,784

[1] Includes small amounts with alcoholic content over 21 percent but not over 24 percent.
[2] Includes vermouth produced at wineries but does not include substandard wines for use as distilling materials.
[3] Not available.
[4] Includes all vermouth.
[5] Stocks on Jan. 1.

Sources: Annual Reports of the Commissioner of Internal Revenue; Department of Commerce, Foreign Commerce and Navigation of the United States, and Bureau of Customs.

TABLE 3.—*Sparkling wines: Premises operated, production, tax-paid withdrawals, and stocks on June 30, fiscal years 1935–51*

[Thousands of wine gallons]

Fiscal year	Premises operated [1]	Production [2]	Tax-paid withdrawals [2]				Stocks on June 30 [2]
			Domestic			Imported	
			Total	Natural	Artificial		
1935	162	311	264	(3)	(3)	287	464
1936	156	414	290	(3)	(3)	280	539
1937	141	481	395	(3)	(3)	567	582
1938	128	489	361	(3)	(3)	542	662
1939	118	334	317	260	57	512	647
1940	128	482	419	344	74	644	660
1941	122	911	723	655	68	258	794
1942	129	1,229	878	827	51	100	1,050
1943	125	1,017	1,104	1,048	56	108	882
1944	112	1,510	1,348	1,255	93	90	936
1945	109	1,551	1,263	1,223	41	65	1,132
1946	109	2,028	1,786	1,749	37	340	1,225
1947	109	2,427	1,549	1,518	31	402	1,975
1948	105	1,021	1,021	991	29	234	1,823
1949	118	1,142	1,083	1,059	24	410	1,743
1950	118	1,061	1,047	1,023	24	451	1,619
First 7 months of fiscal year:							
1950	(3)	540	728	711	17	300	[4] 1,475
1951	(3)	541	827	810	17	466	[4] 1,259

[1] Represents wineries, bonded storerooms, and field warehouses operated during the period 1943–50. Prior to this includes only wineries operated. The number of field warehouses and bonded storerooms operated varied from 9 to 22.
[2] Converted to wine gallons on the basis of 20 half-pint units to the gallon.
[3] Not available.
[4] Stocks on Jan. 1.

Source: Annual Reports of the Commissioner of Internal Revenue; Department of Commerce, Foreign Commerce and Navigation of the United States; and Bureau of Customs.

TABLE 4.—*Wine: Consumer expenditures and quantity consumed, 1940–50*

Calendar year	Consumer expenditures (millions)	Quantity consumed (wine gallons)		Calendar year	Consumer expenditures (millions)	Quantity consumed (wine gallons)	
		Total (millions)	Per capita			Total (millions)	Per capita
1940	$260	87.1	0.66	1946	$635	135.4	0.95
1941	325	99.8	.74	1947	525	[1] 94.4	.67
1942	410	112.0	.84	1948	455	[1] 119.4	.82
1943	415	93.4	.73	1949	465	[1] 129.4	.86
1944	505	90.9	.71	1950	(2)	[1] 135.6	.93
1945	495	91.3	.69				

[1] Preliminary.
[2] Not available.

Source: U. S. Department of Commerce, Total Expenditures for Alcoholic Beverages, release dated June 20, 1949, supplemented by unpublished data; Wine Institute Bulletin No. 517, Mar. 9, 1951, pt. I, p. 5, No. 469, and May 9, 1950, pt. II, p. 5; and Licensed Beverage Industries, Inc., Beverage Distilling Industry Facts and Figures, 1934–45, pp. 91 and 99.

TABLE 5.—*Wine producers: Number of corporation returns, compiled receipts, net income or deficit, and income taxes, 1938–47*

[Dollar amounts in millions]

Year	Total number of returns	Returns with net income					Returns with no net income		
		Number of returns	Total compiled receipts	Net income	Income taxes [1]	Income after taxes	Number of returns	Total compiled receipts	Deficit
1938	169	66	$23.6	$0.8	$0.1	$0.7	103	$8.8	$0.8
1939	158	73	26.8	1.7	.3	1.4	85	6.2	.5
1940	160	89	38.1	2.9	.9	2.0	71	4.7	.4
1941	151	87	47.3	4.1	1.7	2.4	64	5.0	.5
1942	159	115	64.0	6.3	3.4	2.9	44	4.6	.3
1943	154	131	106.2	16.2	10.6	5.5	23	1.3	.2
1944	149	116	111.6	21.0	14.4	6.6	33	3.2	.2
1945	147	95	112.6	11.8	7.1	4.7	52	45.7	4.3
1946	159	102	186.2	21.1	9.1	12.1	57	33.8	3.4
1947	183	66	52.3	3.6	1.2	2.5	117	56.3	10.9

[1] Including excess-profits taxes.

Source: Statistics of Income, pt. 2.

TABLE 6.—*Tax-paid withdrawals of still wines, distilled spirits, and fermented malt liquors, fiscal years 1935–50*

[In thousands]

Fiscal year	Still wines			Distilled spirits (tax gallons)	Fermented malt liquors (barrels of 31 gallons)
	Table [1]	Dessert [2]	Total [3]		
	(Wine gallons)				
1935	12,146	23,270	35,419	75,074	42,229
1936	15,790	31,691	47,484	100,383	48,760
1937	20,994	41,068	62,118	120,011	55,392
1938	21,353	39,938	61,329	114,926	53,926
1939	22,462	45,048	67,564	114,578	51,817
1940	24,673	57,809	82,571	128,326	53,014
1941	26,622	62,782	89,670	130,552	52,799
1942	30,135	73,051	103,490	144,208	60,856
1943	37,227	73,097	110,637	136,837	68,636
1944	37,481	49,764	87,259	90,464	76,970
1945	30,946	60,799	91,752	142,331	79,591
1946	31,542	79,027	110,584	178,131	81,287
1947	27,763	76,353	104,129	173,505	82,629
1948	25,354	86,441	111,801	147,160	86,993
1949	29,063	92,158	121,437	141,767	85,809
1950	32,308	103,044	135,581	144,124	84,203

[1] Not over 14 percent alcohol.
[2] Over 14 and not over 21 percent alcohol.
[3] Includes small amounts with alcoholic content over 21 percent but not over 24 percent.

Source: Annual Reports of the Commissioner of Internal Revenue.

TABLE 7.—*Grapes: Production, sales, and average prices received by growers, 1934–50*

Calendar year	Production		Sales [1]		Average price per ton [3]
	Tons	Value	Tons	Value [2]	
	Thousands	*Thousands*	*Thousands*	*Thousands*	
1934	1,958	$38,664	1,908	$37,683	$19.75
1935	2,477	36,800	2,429	36,095	14.86
1936	1,897	40,531	1,858	39,687	21.36
1937	2,717	55,456	2,671	54,515	20.41
1938	2,671	38,760	2,639	38,292	14.51
1939	2,449	39,034	2,410	38,319	15.90
1940	2,464	42,302	2,427	41,744	17.20
1941	2,725	65,725	2,690	64,829	24.10
1942	2,396	85,174	2,359	83,980	35.60
1943	2,965	184,550	2,933	182,433	62.20
1944	2,712	213,689	2,675	210,790	78.80
1945	2,781	164,193	2,743	161,080	59.30
1946	3,160	296,491	3,127	291,986	93.80
1947	3,036	122,147	3,009	119,186	40.20
1948	3,078	121,460	3,050	118,410	39.50
1949	2,662	94,882	2,635	92,328	35.60
1950	2,640	180,369	2,608	177,187	67.90

[1] Sales exclude consumption by growers.
[2] Value of sales for the years 1934–44 computed by multiplying number of tons sold by average prices.
[3] Prices for bulk fruit at first delivery point.

Source: Department of Agriculture, Agriculture Statistics, 1949, p. 205, and Fruits (noncitrus), Production, Farm Disposition, Value and Utilization of Sales.

APPENDIX D

Gasoline

I. PROPOSAL

It is proposed to increase the excise tax on gasoline from 1½ to 3 cents per gallon. This proposal would increase revenue by an estimated $606 million for a full year of operation at levels of income anticipated for fiscal 1952. The estimated revenue for fiscal 1952 at the present rate of tax is $625 million.

II. TAX BASE

The tax on gasoline applies to the sale by a manufacturer or importer of all products commonly or commercially known as gasoline, including casinghead and natural gasoline. The tax also covers other liquids, like benzol, benzene, and naphtha, if they are sold for or used as motor fuels for motor vehicles, motorboats, or airplanes.

III. HISTORY OF TAX

Gasoline was first taxed by the Federal Government in 1932. The present tax rate of 1½ cents per gallon dates from the 1940 Revenue Act. Changes in the rate of the tax since its inception in 1932 are shown below:

Revenue act	Effective date	Rate
1932	June 21, 1932	1 cent per gallon.
National Industrial Recovery Act	June 17, 1933	1½ cents per gallon.
	Jan. 1, 1934[1]	1 cent per gallon.
1940	July 1, 1940	1½ cents per gallon.

[1] In accordance with the provisions of the National Industrial Recovery Act, the tax was reduced to 1 cent per gallon upon the repeal of the eighteenth amendment to the Constitution.

IV. REVENUE

Revenue from the gasoline tax was $526.7 million in fiscal 1950, the highest level since the inception of the tax. For fiscal 1952, the yield of the tax is estimated to rise to $625 million at the present tax rate of 1½ cents per gallon. Gasoline tax collections from the fiscal year 1937 are shown below:

Fiscal year	Collections	Fiscal year	Collections
	Millions		*Millions*
1937	$196.5	1945	$405.6
1938	203.6	1946	405.7
1939	207.0	1947	433.7
1940	226.2	1948	478.6
1941	343.0	1949	503.6
1942	369.6	1950	526.7
1943	288.8	1951 [1]	580.0
1944	271.2	1952 [1]	625.0

[1] Present law (estimated).

V. INDUSTRY BACKGROUND AND OUTLOOK

A. Number of taxpayers

Taxpayers under the gasoline tax include about 1,300 to 1,400 gasoline refiners and blenders. This indicates the relatively large number of small refiners and blenders in this business. In 1947, however, four companies accounted for over 37 percent of total shipments in the petroleum refining industry, while the largest 20 firms were responsible for over 80 percent of total shipments.[22]

B. Trends in production, prices and profits

The output and use of gasoline in the United States has been expanding for many years as automobiles in use increased and the average car was driven more miles per year. Increased numbers of trucks have also added to the consumption of gasoline. Consumption has shown more consistent year-to-year growth than almost any other major commodity.

Over the past decade, the production of gasoline increased over two-thirds, rising from 615 million barrels in 1940 to 1,024 million barrels in 1950 (table 1). During the same 10-year period, the domestic use of gasoline climbed at a corresponding rate, increasing from 590 to 994 million barrels. Exports rose to a peak of 100 million barrels during the war but have since declined to about the 1940 level (table 2). Since the close of World War II, the domestic demand for gasoline has grown at an average rate of about 7 percent annually, while for 1950 alone, demand increased almost 9 percent above the previous year. This rapid postwar growth in the demand for motor fuel has been due largely to the very great increase in the number of motor vehicles which has taken place since the close of the war. Registrations of passenger autos and trucks increased over 50 percent between 1945 and 1950.

Postwar prices of gasoline have increased noticeably over prewar levels although considerably less than for some other products. In 1950, the retail price of gasoline, exclusive of tax, was 20 cents per gallon, or more than 50 percent above the 1939 price of 13.3 cents per gallon (table 1). Nearly all of this price increase took place in the 2 years subsequent to the removal of price control in the fall of 1946. During 1949 and 1950 prices on the average were quiet stable. The increase in average retail price including taxes from 1939 to 1950 was just over 42 percent, indicating that the average increase in combined State and Federal tax during this period has been less than proportionate to the price increase.

Profits of major petroleum refiners and crude oil producers showed considerable increase after the end of the war compared with the prewar period 1936–39. The average increase in profits after taxes in 1946–49 over this prewar period was 200 percent for 20 large firms (table 3). Before taxes the showing was somewhat more favorable. Based on published earnings figures of large representative companies, it appears that the industry's profits in 1950 approached all-time highs.

[22] Selected census data transmitted by the Secretary of Commerce, hearings before the Subcommittee on Study of Monopoly Power of the Committee on the Judiciary, House of Representatives, 81st Cong., 1st sess., pt. 2–B, p. 1437.

Postwar increases in petroleum industry profits have been the result of a combination of larger output and higher product prices. While gasoline is the major product derived from petroleum, it still represents less than half of the refinery run. Consequently, prices for other products, which may vary independently from the price of gasoline, are important in the over-all profit results.[1] The decline in profits in 1949 (table 3) is attributed to a decline in prices for heavy fuel oils.[23]

C. Supply and demand outlook

Prospects for gasoline sales indicate a continuation of the year-to-year growth which has been noticeable in the past. Even with the anticipated cut-backs in automobile output in the next several years, total cars in use will increase over the present all-time high. High consumer incomes will lead to a high yearly rate of utilization of these cars. The operation and training of larger Armed Forces in connection with the defense program will also add to the demand for petroleum products. The effect of these factors is reflected in the fact that the Bureau of Mines estimated that demand for gasoline in 1951 will be 9.5 percent higher than in 1950.[24]

Capacity of the petroleum industry is expected to be sufficient to meet anticipated higher levels of consumption. Refinery capacity is in substantially full utilization, but the industry is continually expanding its plants. Oil reserves are ample for the foreseeable future.

VI. ECONOMIC EFFECTS OF PROPOSAL

A. Impact on business

The Federal gasoline tax was last changed nearly eleven years ago. Because the tax is a specific amount per gallon, the ratio of tax to selling price has been declining as the price of gasoline has increased. In 1940, the year of the last tax increase, the 1½-cent tax represented about 8.5 percent of the average retail price exclusive of Federal excise tax. By 1950 this ratio had declined to less than 6 percent. Doubling the tax as proposed would result in a tax of about 12 percent of the average 1950 retail price, or only 3.5 percent more than in 1940.

Under prospective supply and demand conditions, it appears likely that the proposed tax increase would be passed on to consumers. The proposed increase in the tax on gasoline would be equivalent to an increase in the average retail price of gasoline of slightly over 5½ percent. Since experience has shown that the demand for gasoline does not change in proportion to price changes, the addition of this amount to present prices should not curtail demand noticeably. The normal growth in consumption would soon offset any reduction in usage in the period immediately following the tax increase.

Demand for gasoline is not very sensitive to price changes because its cost is a minor proportion of the total cost of owning and operating an automobile. Gasoline is generally purchased in relatively small amounts at regular intervals, which tends to reduce the impact of the tax on consumption. For business purposes, the convenience and

[23] Standard and Poor's Industry Surveys, Oil, November 23, 1950, pp. 02-21.
[24] The Oil and Gas Journal, Petroleum Publishing Co., December 14, 1950, p. 59.

economy of the use of motor vehicles make gasoline price changes a subsidiary factor in the decision to operate a truck or car.

Purchases of gasoline for commercial and industrial purposes are substantial so that a significant portion of the proposed tax increase would enter into business costs. However, in relation to the over-all excise program, the business cost element in the gasoline tax is not of major significance.

B. Impact on consumers

Demand for gasoline is not significantly altered by price changes and is expanding quite rapidly at the present time. Thus, the proposed increase in tax would be passed forward to users of gasoline. Available data indicate that the burden of the proposed increase on individual consumers would be widely distributed.

Since the price of gasoline is relatively uniform, gasoline expenditures can be adjusted only by varying the number of gallons used. While some gasoline needs are relatively inflexible, the extensive use of automobiles for pleasure suggests that there is some degree of latitude on the part of the consumer with regard to the gasoline tax.

An increase in the tax on gasoline would be reflected in the index of prices paid by consumers and the index of prices paid by farmers. Upward adjustment of these indexes would directly affect certain wage contracts and farm parity prices. The proposed increase of 1½ cents a gallon would increase the index of prices paid by consumers by 0.09 percent. A revised index now being published concurrently would be increased by 0.08 percent. For the index of prices paid by farmers the upward adjustment would be 0.25 percent.

VII. ADMINISTRATIVE AND COMPLIANCE CONSIDERATIONS

The Federal excise on gasoline is one of the simplest to administer. No increase in administrative problems is expected with the proposed higher rate. Since there would be no change in the coverage of the tax, taxpayer's compliance problems would not be increased.

VIII. STATE GASOLINE TAXES

Taxation of gasoline is one of the major points of duplication in the Federal-State excise system. All States levy taxes on gasoline at a higher rate than the Federal tax. The usual rate is 4 to 5 cents a gallon but eight States have a 7-cent rate and one has a 9-cent rate (table 4).

Since the proposed tax increase would have little effect on gasoline consumption, it would not affect State revenues appreciably.

IX. COMPARISON WITH BRITISH AND CANADIAN TAXES

In Great Britain, gasoline is taxed at the rate of 26.3 cents per Imperial gallon or 21.9 cents per United States gallon.

There is no Dominion excise tax on gasoline in Canadia. However, gasoline is subject to the Canadian sales tax of 10 percent of manufacturers' price.

TABLE 1.—*Production, domestic consumption, and retail price of gasoline, 1939–50* [1]

Year	Production	Domestic consumption	Retail price per gallon [2]	
	Millions of barrels		Excluding taxes	Including taxes
			Cents	*Cents*
1939	611.5	555.5	13.3	18.8
1940	615.4	589.5	12.8	18.4
1941	702.7	667.5	13.3	19.2
1942	608.7	589.1	14.5	20.4
1943	608.3	568.2	14.6	20.5
1944	739.6	632.5	14.6	20.6
1945	798.3	696.3	14.5	20.5
1946	775.9	735.4	14.7	20.8
1947	840.6	794.8	16.9	23.1
1948	920.6	871.2	19.5	25.9
1949	960.5	913.7	20.3	26.8
1950	1,024.4	994.4	20.1	26.8

[1] Includes gasoline, benzol, and natural gasoline.
[2] Average for 50 cities.

Source: American Petroleum Institute, Bureau of Mines, and the Texas Co.

TABLE 2.—*Exports and imports of gasoline, 1939–50*

[Millions of barrels]

Year	Exports	Imports	Net exports (exports-imports)	Year	Exports	Imports	Net exports (exports-imports)
1939	44.6	[1]	44.6	1945	88.1	1.8	86.3
1940	25.4	0.1	25.3	1946	45.3	[1]	45.3
1941	27.1	.3	26.3	1947	47.5	.4	47.2
1942	35.1	.1	35.0	1948	37.4	.3	37.1
1943	51.6	5.7	45.8	1949	39.5		39.5
1944	100.5	3.1	97.4	1950	24.6	.2	24.4

[1] Less than 50,000 barrels.

Source: American Petroleum Institute and Bureau of Mines.

TABLE 3.—*Profits before and after taxes of 20 large petroleum producing and refining companies, 1936–49*

[In millions]

Year	Profits		Year	Profits	
	Before taxes	After taxes		Before taxes	After taxes
1936	$494	$434	1943	$864	$532
1937	684	600	1944	1,012	670
1938	375	318	1945	796	645
1939	387	336	1946	1,029	793
1940	475	391	1947	1,709	1,273
1941	754	545	1948	2,662	1,949
1942	649	414	1949	1,522	1,139

Source: Standard and Poor's Industry Surveys, Oil, Nov. 23, 1950, p. 02-20.

TABLE 4.—*State gasoline tax rates, April 1, 1951*

2 cents	3 cents	4 cents	4½ cents	5 cents
Missouri	Illinois Massachusetts Michigan New Jersey	Connecticut Indiana Iowa New Hampshire New York Ohio Rhode Island South Dakota Texas Utah Wisconsin Wyoming District of Columbia.	California	Arizona West Virginia Kansas Pennsylvania [1] Minnesota Vermont Delaware Maryland Nebraska North Dakota
Total, 1	Total, 4	Total, 13	Total, 1	Total, 10
5½ cents	6 cents	6½ cents	7 cents	9 cents
Nevada [1]	Alabama Colorado [1] Idaho Maine Virginia Oregon Montana	Arkansas Washington Oklahoma (6.58 cents) [1]	Florida Tennessee Kentucky New Mexico North Carolina Georgia [1] Mississippi South Carolina	Louisiana
Total, 1	Total, 7	Total, 3	Total, 8	Total, 1

[1] The rates shown include temporary rates of indicated amounts which expire on the dates shown: Colorado, 2 cents, June 30, 1953; Georgia, 1 cent, June 30, 1951; Nevada, 1½ cents, June 30, 1953; Oklahoma, 1 cent, May 31, 1951; Pennsylvania, 2 cents, May 31, 1951.

APPENDIX E

Passenger Automobiles

I. PROPOSAL

It is proposed to increase the tax on passenger automobiles and motorcycles from 7 percent to 20 percent of manufacturers' price. The increase in revenue from the proposal is estimated at $771 million at levels of income estimated for fiscal year 1952. At the present rate of tax, estimated revenue for fiscal 1952 is $415 million.

II. TAX BASE

In addition to passenger automobiles and motorcycles, the tax is applicable to trailers and semitrailers suitable for use in connection with passenger automobiles. Parts and accessories sold in connection with the sale of the above articles are taxable at the same rate. The taxable amount is the price for which the articles are sold by the manufacturer or importer.

III. HISTORY OF THE TAX

Passenger automobiles have been taxed continuously since 1932 and prior to that from 1917 to 1928. From 1932 to 1940 the rate was 3 percent of manufacturers' price. In 1940, the rate was raised to 3½ percent. The present rate of 7 percent was imposed by the Revenue Act of 1941. The historical rates of tax and effective dates are shown in the following table:

Revenue Act	Effective date	Passenger automobiles and motorcycles [1]
1917	Oct. 4, 1917	3 percent of manufacturer's price.
1918	Feb. 25, 1919	5 percent of manufacturer's price.
1924	July 2, 1924	No change.
1926	Feb. 26, 1926	
1928	May 29, 1928	Repealed.
1932	June 21, 1932	3 percent of manufacturer's price.
1938	July 1, 1938	No change.
1940	July 1, 1940	3½ percent of manufacturer's price.
1941	Oct. 1, 1941	7 percent of manufacturer's price.[2]

[1] Busses were classified as passenger automobiles prior to the Revenue Act of 1941.
[2] Trailers and semitrailers suitable for use in connection with passenger automobiles added to taxable items.

IV. REVENUE

Prior to World War II the largest revenue yield from the tax on passenger automobiles was $81 million in fiscal year 1941. During the war, revenue declined abruptly as the result of limitations on the output, but since then, because of higher prices, larger output, and a higher tax rate, revenue from the tax has increased above prewar levels. The revenue from this source was $452 million in fiscal year

1950 and is estimated to rise to $550 million in fiscal year 1951. Revenue collections since 1936 are presented below.

Fiscal year	Collections	Fiscal year	Collections
	Millions		*Millions*
1936	$48.2	1945	$2.6
1937	65.3	1946	25.9
1938	43.4	1947	204.7
1939	42.7	1948	271.0
1940	59.4	1949	332.8
1941	81.4	1950	452.1
1942	77.2	1951 (estimate) [1]	640.0
1943	1.4	1952 (estimate) [1]	415.0
1944	1.2		

[1] Present law.

V. INDUSTRY BACKGROUND AND OUTLOOK

A. Number of taxpayers

The production of standard passenger automobiles is limited to 10 firms. Importers and producers of motorcycles, specialized passenger vehicles, and automotive trailers add considerably to the number of taxpayers, however.

B. Trends in production, prices, and profits

Production of standard passenger vehicles is highly concentrated, the three major firms in the industry producing about 85 percent of the cars sold in this country in 1949. The concentration in the industry was even higher in the decade prior to the war when the three major companies accounted for an average of 90 percent of the total output of automobiles. Shortages following the war enabled the independent producers to better their position, although in the last several years their proportion of the market has decreased somewhat.

Passenger vehicle production has increased every year since the war, although it did not exceed the 1940 and 1941 levels until 1948 (table 1). In 1950 production reached an all-time high of 6.7 million passenger vehicles, more than twice the number produced in 1939 and 30 percent above 1949. In addition, the output of trucks and busses at 1.3 million units was close to the peak achieved in 1948. In the first 10 weeks of 1951, production of automobiles and trucks was still at peak levels with an output of 1.5 million units or the equivalent of a yearly rate of over 7.5 million.[25]

Because of price increases and proportionately greater sales of higher-priced cars, the factory value of automobiles has increased substantially more than the unit output. The 1950 output, exclusive of excise tax, was valued at $8.8 billion or five times the 1939 output, although 1950 unit output was only 232 percent of 1939 (table 1).

Prices of passenger automobiles have risen considerably in the postwar period. By September 1950, retail prices of the three major low-price cars were almost twice as high as the average for 1935–39.[26] Prices, however, were relatively stable in 1950. Several producers announced price increases toward the end of 1950, but these increases were withdrawn at the request of the Office of Price Stabilization.

[25] Ward's Automotive Reports.

[26] Bureau of Labor Statistics, Indexes of Retail Prices of Apparel, Housefurnishings, Services, and Miscellaneous Goods to Moderate-income Families in Large Cities of the United States.

The latest increase was in March 1951 when manufacturers were allowed to increase their prices by 3½ percent above those prices charged on December 1, 1950.[27]

Profits of automobile manufacturers and parts producers increased as output expanded after World War II. Some of the "independent" car manufacturers reported peak profits in 1948 with declines thereafter as the major firms regained part of the proportion of the total market which they lost after the war. A compilation of profits of 15 large firms in the automobile and parts industry shows that 1949 profits before taxes increased more than 350 percent over the 1939 level (table 2). After taxes, the increase was about 250 percent. The year 1950 was extraordinarily profitable for the industry as a whole. Profits in the first three quarters of 1950 alone exceeded the full-year 1949 level.

C. Supply outlook

For the next several years the diversion of critical materials, labor and plant facilities to defense work will substantially reduce the supply of passenger automobiles. The automobile industry will be especially affected by defense requirements because it is an important consumer of a wide variety of metals and also has a vast labor force and plant adaptable to the production of military equipment.

The major element of an automobile is steel. The automobile and truck industry uses about 20 percent of the total output of steel.[28] Any substantial reduction in civilian usage of steel would be likely to affect automobile output.

Defense contracts in large volume have already been received by the industry. General Motors reported that defense contracts of $3 billion had been received by the end of 1950. This sum alone represents about 40 percent of the total sales of this company in 1950, indicating substantial diversion of production to defense items.

For the second quarter of 1951, the amount of steel available for automotive production has been cut 20 percent from the average quarterly consumption in the first half of 1950,[29] and the cut-back will doubtless be increased as defense production accelerates. The available civilian supply of other critical materials used in automobile construction, such as copper and aluminum, has been reduced more severely than the steel supply.

In view of the record output of automobiles achieved in 1950, however, cut-backs now announced would leave enough material to produce a relatively large number of cars. If, for instance, output is cut one-third below 1950 levels, production would still be 4.5 million annually. This would approach the number of automobiles produced in 1949 and would substantially exceed the number turned out annually in the decade prior to World War II.

D. Demand conditions

Since the close of World War II, the demand for passenger automobiles has been extremely insistent. For some time after production was resumed, 1940 and 1941 cars were selling for more than their original cost. Purchasers of new cars were frequently required to buy substantial amounts of accessories.

[27] Office of Price Stabilization, CPR No. 1.
[28] Steel Facts, December 1950, American Iron and Steel Institute, p. 2.
[29] National Production Authority, Order M–47.

Since 1945 a total of 21.5 million automobiles have been sold by manufacturers, mostly for domestic consumption. Passenger car registrations during the same period increased about 55 percent, rising from 25.7 million to 39.5 million.[30] Consumers' capacity to purchase automobiles has been due in large measure to the general prosperity achieved in the postwar years. The demand for automobiles is greatly influenced by the level of consumers' income, and purchases have reflected record disposable income.

Automobile purchases in the postwar period have also been bolstered by a large backlog of demand and liquid savings accumulated during World War II, when the production of passenger automobiles virtually ceased. The replacement demand carried over from the war probably has been satisfied in terms of number of cars in use but not in terms of newer cars desired.[31] Even with the huge volume of postwar purchases, the average age of cars in use was 7.8 years at the end of 1950 compared with 5.5 years in 1941. Over half the automobiles now in use are over 7 years old, compared with less than one-fourth in 1941.[32]

Since the outbreak of hostilities in Korea, many purchases of automobiles have been made in anticipation of large cut-backs in output. This factor was extremely significant in the summer of 1950 when car purchases soared. Buying slowed down somewhat in the third quarter of 1950 but in December again turned upward.

Recent restrictions on installment purchases of automobiles may curtail future demand for cars.[33] Since mid-October 1950, purchasers have been required to make a minimum down payment of one-third on automobiles and to pay the balance in 15 months.[34] However, since incomes are likely to continue to increase and because of the historically low proportion of new cars to total cars in use, the demand for automobiles promises to be strong within the foreseeable future. Adequate supplies of gasoline are expected to be available for civilian use so that consumers will not be discouraged from new purchases because of inability to make use of these cars.

VI. ECONOMIC EFFECTS OF PROPOSAL

A. Impact on business

With continuing high-level demand for new automobiles and reduced output, the supply of cars will be less than consumers will be willing to buy at list prices. The addition of the proposed tax increase to list prices will therefore not reduce sales below available production.

The proposed increase, from 7 percent to 20 percent of manufacturers' price, would result in an increase of retail prices of about 10 percent. If usual trade margins were allowed on the increase, the retail price increase would be about 13–14 percent. An increase in prices of from 10 to 13 percent normally could be expected to reduce demand by a slightly greater percentage.[35] However, with increased

[30] Bureau of Public Roads.
[31] The Demand for Consumers' Durable Goods, Survey of Current Business, June 1950, pp. 5–6.
[32] Automobile Facts, Automobile Manufacturers Association, February 1951, pp. 4–5.
[33] In 1949, the latest year for which data are available, 56 percent of new cars purchased were paid for entirely by cash and trade-in allowances, while 43 percent were bought on credit. 1950 Survey of Consumers' Finances, Federal Reserve Bulletin, July 1950, p. 784.
[34] Regulations W.
[35] Survey of Current Business, op. cit.

incomes arising from the defense program, price controls, and reductions in output, price increases would have relatively little if any effect on sales.

While the proposed tax increase would not be expected to raise prices to the full extent that consumers would be willing to pay for the smaller supply of cars, the increase should be large enough to bolster the administration of price controls on new cars. The effect of the tax in narrowing the gap between controlled prices and demand would reduce the incentive for dealers to evade controls by "loading" new cars with unwanted accessories or entering into arrangements with "used" car outlets.

A portion of passenger cars are purchased for business use and by governmental and nonprofit organizations. In 1949, it appears that up to 12 percent of the new cars were purchased by this category of users.[36] Cars sold to individuals are often used for both business and personal purposes. To this extent, the proposed increase in tax would be partially reflected in business costs.

B. Impact on consumers

Under prospective supply and demand conditions the proposed tax increase would be fully reflected in higher list prices for new cars. However, purchasers might not bear the full burden of the tax because there would otherwise be indirect price increases by dealers through the addition of unwanted accessories or reduced trade-in allowances. The proposed tax increase would operate in the direction of equalizing supply and demand through the price mechanism but would be more uniform in operation than so-called gray market transactions between buyers and sellers.

The probable distribution of the burden of the proposed tax increase by income groups would appear to be more progressive than general conceptions of the wide distribution of car ownership would indicate. The automobile is doubtless a necessity to many American families. Use is made of cars to drive to places of work to which there is no, or inadequate, public transportation. The convenience factor of a car for personal business and recreation is important. Nevertheless, only 55 percent of all families (spending units) reported owning a car in the early part of 1950.[37] Ownership of an automobile was associated with size of income, and the families with money incomes of less than $2,000, which represented 33 percent of all families, owned less than 10 percent of the automobiles.[38]

The distribution of ownership of automobiles by income groups is not necessarily a measure of the distribution of the burden on consumers of the tax on sales of new automobiles. A large proportion of cars are purchased second-hand. While the new car price undoubtedly influences the whole structure of used car prices, after several years of use the price of a second-hand car may reflect little, if any, of the tax embodied in the price of a new car.

Data on new-car sales in relation to income of purchasers indicate that the tax is about proportional to income of the original owners of cars for those having incomes of less than $5,000 (table 3). Furthermore, the proportion of income spent on new automobiles in recent years was higher for those with incomes over $5,000 than for those with incomes below this level. In 1949, for instance, 47 percent

[36] 1950 Survey of Consumer Finances, Federal Reserve Bulletin, July 1950, p. 780, and table 1 of this memorandum.
[37] 1950 Survey of Consumer Finances, Federal Reserve Bulletin, December 1950, p. 1590.
[38] Ibid., August 1950, p. 949; December 1950, p. 1600.

of the new cars were sold to families with incomes of $5,000 and over, although they received only 39 percent of the total money income. Intended purchases for 1950, as reported in the early part of 1950, follow a similar pattern.

Automobile prices are included in the index of prices paid by consumers and the index of prices paid by farmers. The proposed tax increase would then be a factor in determining wages in contracts based on the consumers' price index and in the control of prices of agricultural commodities. The proposed tax increase, without pyramiding due to mark-ups, would increase the index of prices paid by consumers by 0.25 percent and the index of prices paid by farmers by 0.52 percent. For the revised consumers' price index, now being issued concurrently with the older index, the increase would be 0.43 percent.

VII. ADMINISTRATION AND COMPLIANCE CONSIDERATIONS

The proposed increase in tax to 20 percent of manufacturers' price raises a question as to whether the increased rate would provide an incentive to manufacturers to try to sell cars without a number of parts and accessories normally installed on a new automobile since separate sales of parts and accessories are taxed at 5 percent. Customers would then buy the separate parts for installation by the dealer. It is not likely that customers would receive a saving from this device because dealers normally receive a much higher mark-up on parts and accessories than on new cars and the cost of installation would presumably be higher when done on a custom basis than on an assembly line. The manufacturers, however, might gain to the extent that they could take up the difference between a 20-percent tax on new cars and the 5-percent tax on parts and accessories in the higher mark-up they normally obtain on separate sales of parts and accessories.

Only actual experience would tell whether manufacturers would find it worth while to use this tax-minimizing device. However, the device appears of limited value because only a restricted number of parts can be conveniently installed after a car is assembled. Manufacturers also feel impelled to meet certain standards of completeness in their product to keep their long-range competitive standing in the market.

Extensive resort to this device to avoid tax would make it necessary to review such sales to determine whether they qualified for the lower tax on parts and accessories. Parts and accessories sold in connection with the sale of new cars are taxable at the new-car rate, and consideration would, therefore, have to be given to whether the separate sales of parts were actual bona fide separate sales. Currently this is not an important problem since at present tax rates little or no tax advantage can be obtained by selling a stripped car.

VIII. COMPARISON WITH BRITISH AND CANADIAN TAXES

Canada imposes a tax of 25 percent of manufacturers' price on passenger automobiles. In addition, passenger automobiles are subject to the general sales tax which amounts to 10 percent of manufacturers' price.

In Great Britain, passenger automobiles are subject to purchase tax at a rate of 66⅔ percent of wholesale value.

TABLE 1.—*Factory sales of motor vehicles, 1937–50* [1]

Year	Number			Wholesale value [2]		
	Passenger autos	Trucks and busses	Total	Passenger autos	Trucks and busses	Total
	Thousands	*Thousands*	*Thousands*	*Millions*	*Millions*	*Millions*
1937	3,916	893	4,809	$2,244	$534	$2,778
1938	2,001	488	2,489	1,237	334	1,571
1939	2,867	710	3,577	1,765	495	2,260
1940	3,717	755	4,472	2,371	568	2,938
1941	3,780	1,061	4,841	2,567	1,070	3,637
1942	223	819	1,042	164	1,427	1,591
1943	[3]	700	700	[4]	1,452	1,452
1944	[3]	738	738	[4]	1,701	1,701
1945	70	656	725	57	1,182	1,239
1946	2,149	941	3,090	1,980	1,043	3,023
1947	3,558	1,240	4,798	3,964	1,710	5,674
1948	3,909	1,376	5,285	4,853	1,858	6,712
1949	5,119	1,134	6,254	6,768	1,407	8,176
1950	6,666	1,337	8,003	8,825	1,670	10,495

[1] Includes sales of military vehicles.
[2] Excludes Federal excise tax.
[3] Less than 500.
[4] Less than $500,000.

Source: Automobile Manufacturers' Association, Automobile Facts and Figures, 1950, p. 4, and National City Bank of New York, Monthly Letter, Feb. 4, 1951.

TABLE 2.— *Profits before and after taxes of 15 large corporations manufacturing automobiles and equipment*

[In millions]

Year	Profits before taxes	Profits after taxes	Year	Profits before taxes	Profits after taxes
1939	$305	$253	1946	$37	−$8
1940	428	274	1947	809	445
1941	663	296	1948	1,131	639
1942	567	259	1949	1,473	861
1943	678	236	1949, 3 quarters	1,136	662
1944	697	240	1950, 3 quarters	1,649	902
1945	310	148			

Source: Federal Reserve Bulletin, June 1949, p. 666; February 1951, p. 196.

TABLE 3.—*Distribution by income classes* [1] *of all spending units* [2] *and money income for 1949, and spending units purchasing new cars in 1948 and 1949 and those expecting (in the early part of 1950) to purchase one in 1950* [3]

Income class [1]	Income 1949	Spending units [2]			
		All 1949	Purchasers of new cars [3]		
			1948	1949	Prospective 1950
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
Under $1,000	2	14	1	2	3
$1,000 to $2,000	9	19	1	8	8
$2,000 to $3,000	16	21	9	14	12
$3,000 to $4,000	19	19	18	16	14
$4,000 to $5,000	15	11	17	13	17
$5,000 and over	39	16	54	47	46
Total	100	100	100	100	100

[1] Money income before income taxes.
[2] A spending unit comprises all persons living in the same dwelling and belonging to the same family who pool their incomes to meet their major expenses.
[3] The distribution of new car purchasers in 1948 is related to 1948 income, for 1949 and for prospective purchasers in 1950 the distribution is related to 1949 income.

Source: 1950 Survey of Consumer Finances, Federal Reserve Bulletin, July 1950, p. 786; August 1950, p. 949.

APPENDIX F

Radios, Phonographs, and Television Sets

I. PROPOSAL

It is proposed to increase the excise tax on radios, phonographs, and television sets from 10 to 25 percent of the manufacturers' sale price.[39] The present tax is about 6 percent of the retail price and would be increased to about 15 percent under the proposal, assuming no pyramiding of the tax increase by the application of retailer's mark-up. The proposal would involve no change in the existing tax base.

The proposed increase in tax is estimated to yield $125 million for a full year of operations at levels of income estimates for the fiscal year 1952.

II. TAX BASE

Radios, phonographs, television sets, and any combination thereof are taxable when sold by the manufacturer or importer. All parts and accessories sold on the sets or in connection with the sale thereof are taxable. Also taxed when sold to other than manufacturers for incorporation in taxable sets are chassis, cabinets, tubes, speakers, amplifiers, power-supply units, antennas of the "built-in" type, and phonograph mechanisms, which are suitable for use on or in connection with or as component parts of radios, television sets, or phonographs.

III. HISTORY OF TAX

A tax on certain components of radio receiving sets was imposed by the Revenue Act of 1932. In 1941 the tax base was changed to the complete set and phonographs also were made taxable. The Revenue Act of 1950 added television sets to the scope of the tax. Previous to the 1950 act, only the radio components included in the television set, subject to the tax on radios, had been taxed.

The effective dates of the various rate changes are shown below:

Revenue Act	Effective date	Radios	Phonographs	Television sets
1932	June 21, 1932	5 percent of manufacturer's price.	No tax	No tax.
1940	July 1, 1940	5½ percent of manufacturer's price.	No tax	No tax.
1941	Oct. 1, 1941	10 percent of manufacturer's price.	10 percent of manufacturer's price.	No tax.
1950	Nov. 1, 1950	No change	No change	10 percent of manufacturer's price.

[39] Phonograph records and musical instruments are taxed under the same section of the Internal Revenue Code as radios and phonographs and would also be subject to the proposed tax increase. In view of the different factual background and economic considerations involved, these items are discussed in separate memoranda.

IV. REVENUE

Collections from the tax on this related group of items reached a peak of $67.3 million in the fiscal year 1948. Revenues declined in the next 2 years because of a decline in radio production but are now increasing due to the inclusion of television by the 1950 act. Collections beginning with 1936 are shown in the following table:

Fiscal year	Collections [1]	Fiscal year	Collections [1]
	Millions		*Millions*
1936	$5.1	1945	$4.8
1937	6.8	1946	13.4
1938	5.8	1947	63.9
1939	4.8	1948	67.3
1940	6.1	1949	49.2
1941	6.9	1950	42.1
1942	19.1	1951	[2] 107.0
1943	5.6	1952 (estimated)	[2] 83.0
1944	3.4		

[1] Includes collections from tax on phonograph records which was repealed July 1, 1938.
[2] Present law.

V. INDUSTRY BACKGROUND AND OUTLOOK [40]

A. Number of taxpayers

Radios, television sets, and allied types of communication equipment are made by some 50 manufacturers, of which 6 account for a major portion of the output. These comprise the bulk of the taxpayers under the tax. In addition, however, there are over 300 manufacturers of electronics parts, who supply products for assembly into radio, television, and phonograph units. Some of the latter are subject to the tax in connection with sales of parts to distributors or consumers.

B. Recent trends in production, prices, and profits

In 1947, when radio production reached a peak of 20 million sets, radio output at the manufacturer level was valued at $650 million, or 13 times the value of television output (table 1). As the wartime accumulation of demand for radios was filled and the output of television sets expanded, radio production declined to 11.4 million units in 1949. In the year 1950 radio production expanded somewhat to 14.6 million units.

Television receiver production has shown a phenomenal growth in the postwar years, from a mere 6,500 units in 1946 to an estimated 7.5 million sets in 1950. Manufacturers' sales in dollar terms reached an estimated $1.35 billion in 1950. Because of the year-to-year growth in television-set output, the value of the combined output of radios and television receivers has shown a steady growth since production was resumed after World War II, even though radio output has declined considerably from the 1947 peak. Manufacturers' sales of the two products in 1950 appear to have exceeded the 1949 level by 90 percent.

Average retail prices of both radios and television sets have declined since 1947. Television sets sold in 1950 retailed on the average at slightly less than half the price in 1947 (table 2). For radios the

[40] Since separate phonographs are a small part of the radio, phonograph, television industry, the discussion relates primarily to radios and television sets.

price decline was only about 20 percent. Because of variations in the average size and quality of units purchased by consumers, changes in the average retail price are not exact measures of actual price changes for a given product. It is clear, however, that there has been a significant decrease in the price of television sets over this period due in part to decreasing unit costs with larger volume and in part to increasingly keen competition in the field. Television-set prices reached their lowest level in the first half of 1950, after which prices increased as the general price level began to move upward. Some price reductions were again made toward the end of the first quarter of 1951.

The surge of demand for radios immediately after World War II and the subsequent growth of television output has given rise to a substantial increase in profits of producers of sets and component parts. When radio-set output reached its peak in 1947, the manufacturers' profits before taxes were $75 million, according to a trade association tabulation (table 3). In 1949 the profits increased to over $105 million, and in December 1950 it was estimated that 1950 profits would be over $230 million.

C. Supply outlook

Radio and television production over the next several years will be reduced by the military program although the extent of the curtailment is not fully clear. Material limitations have not as yet affected output, so that production for the first quarter of 1951 exceeded the average quarterly rate for 1950. However, a number of orders have been issued to limit the use or fabrication of materials, such as copper, cobalt, steel, and aluminum, which are essential to the production of electronic devices. Most of these orders require an important reduction by the second quarter of this year.

The use of steel by the electronics industry in the second quarter of 1951 is limited to 80 percent by weight of the average quarterly use in the first half of 1950.[41] Copper consumption is limited indirectly by restrictions on the output of copper fabricators for nondefense purposes. For the quarter beginning April 1, 1951, production by fabricators is limited to 75 percent of the average quarterly amount in the first half of 1950.[42] These limitations are more stringent than would at first sight appear since production of television sets in the first half of 1950 was 60 percent of the level in the second half of the year. However, manufacturers have been developing technical changes designed to reduce their requirements for essential materials and reportedly have been quite successful in their efforts. Consequently, the material limitation orders may not have a proportionate effect on output. Production for military contracts is just getting under way and more severe limitation orders are expected.

Another important limitation on civilian output will be the need to use plant and labor to produce the vast quantities of electronic equipment needed for the military program. The procurement program is necessarily in a formative stage, but current estimates are that electronic equipment needs in the next several years will be in excess of several times the value of the output of the radio-television

[41] National Production Authority, order M–47.
[42] National Production Authority, order M–12.

industry in 1950. A commonly mentioned estimate for electronic contracts is $4 billion, over twice the 1950 manufacturers' value of output of radios and television sets. Not all of this equipment will be made by the radio-television manufacturers, but they will be very important producers.

In anticipation of these material controls and military electronic needs, estimates in the latter part of 1950 indicated that radio-television output might be cut very drastically from the 1950 level in 1951 and 1952, perhaps by as much as 60 percent. These first estimates may have been excessive, especially with respect to 1951, but revised current estimates suggest there will be a substantial impact on output after the first half of 1951.

D. DEMAND FACTORS

The demand for the output of the radio-television industry in the last 5 years has been affected to a major degree by the extraordinary acceptance of the newly developed television sets. Consumer demand for this new product has been increased by present high-income levels. Since high incomes will continue as a result of the increase in defense expenditures over the next several years, the ability of consumers to purchase radios, television sets, and other durable goods will be sustained.

The demand for television sets in the next several years may be greatly increased by the expansion of new telecast outlets. Since 1948, because of problems connected with allocating broadcasting channels, the number of television stations has been "frozen." As a result only about 50 percent of the approximately 40 million homes with electricity are within the sending area of existing stations. Should the "freeze" on television stations be rescinded a whole new market would be opened up representing 50 percent of all homes in the Nation. When this action will occur is uncertain, but positive steps are being taken to work out the technical problems of licensing more stations. The Federal Communications Commission has worked out tentative channels for 2,000 new stations and is soon to begin holding hearings on the proposals.

Of the homes within range of television broadcasting, over 50 percent now have television sets. These will continue to provide some demand for replacements for existing sets, as well as a shift to larger screen units and second sets. The remaining 10 million homes already within telecast range without sets will be an important source of demand. Experience in the refrigerator field shows that practically all families will become owners of expensive appliances if they feel that these fulfill a fundamental need.[43]

The introduction of color television would also greatly stimulate demand for television instruments to convert existing sets for color reception or for new sets. Color television is now held back by technological problems and litigation, and it may be some time before these are resolved.

[43] About 86 percent of the homes with electricity have electrical refrigerators. Electrical Merchandising, McGraw-Hill Publishing Co., January 1951, p. 74.

VI. ECONOMIC EFFECTS OF PROPOSAL

A. Impact on business

An increase in excise tax from 10 percent to 25 percent of manufacturers' price would result in an increase in retail prices of radios and television sets of about 10 percent if the tax alone were passed on to consumers. However, if the retailers' mark-up on tax were allowed by the price-control agency, the retail price increase would be about 14 percent.

Since the output of radios and television sets in 1951 and 1952 is expected to be reduced significantly below the 1950 levels of 14.6 million and 7.5 million sets, respectively, the output of the industry is expected to be less than consumers would be willing to buy at controlled prices. The apparent temporary oversupply of television sets, due in part to a reaction from the wave of anticipatory buying in recent months, will soon disappear as the industry shifts to defense work. A price increase of 10 to 14 percent would not be expected to reduce sales below maximum possible output of the industry during this period as a whole.

Treasury excise proposals as a whole would involve equivalent price increases for most other appliances. Thus, the proposed excise tax program would tend to maintain the relative price relationship of these articles in competition for the consumer's dollar.

B. Impact on consumers

Radios and television sets represent only one of a variety of goods and services in the amusement and recreational area which are subject to Federal excises. General admissions, cabarets, and club dues are taxed at 20 percent of the charge, or the equivalent. Manufacturers' excises at the rate of 10 percent apply to such items as sporting goods, musical instruments, and phonograph records, as well as radios and television sets. The proposed increase in tax from 10 to 25 percent of manufacturers' price on radios, phonograph records, and musical instruments would make the manufacturers' excises more comparable in magnitude to those levied on admissions.

Radios are probably owned more widely than other electrical appliances, an estimated 90 percent of all homes having radios.[44] Studies of consumer expenditures indicate that consumer expenditures for radio purchases are about proportionate to income up to the $5,000 level,[45] probably because of the wide range of radio prices. This suggests that the proposed tax increase would tend to be spread uniformly as a percentage of income at all levels.

In contrast with radios, a relatively large proportion of television sets have been purchased by above-average-income families. Television sets are generally more expensive than radios, the average television set price in 1950 being $233, or more than five times that of the average radio (table 2). In 1949, 20 percent of television sets were purchased by the 54 percent of families (spending units) with incomes of less than $3,000 (table 4). These families had 27 percent of the total income. Eighty percent of the sets went to families with in-

[44] Electrical Merchandising, op. cit.
[45] Department of Labor, Family Spending and Saving in Wartime, Bulletin No. 822, p. 79.

comes of $3,000 and over who had 73 percent of the income. Actual data for 1950 are not yet available but a survey of intended purchases at the beginning of 1950 indicated there would be a similar pattern in that year. This analysis suggests a somewhat progressive distribution of the proposed increase on television units, although future purchase of sets may include a large proportion of low-income purchasers than in the past.

The proposed tax increase would increase the index of prices paid by consumers by 0.03 percent, assuming that the amount of the tax increase was reflected in retail prices. A revision of the index, now published concurrently with the old index, would be raised 0.17 percent by the proposed change. The proposal would increase the index of prices paid by farmers by 0.02 percent.

VII. ADMINISTRATIVE AND COMPLIANCE CONSIDERATIONS

No new problems of administration or compliance are expected to arise from the proposed tax increase since the proposal would not involve any change in the definition of taxable sales or the number of taxpayers. Certain administrative problems now exist in the field, chief of which is the policing of selling practices of manufacturers designed to minimize taxable value of sales. This would call for continued careful review under the proposed tax increase.

VIII. BRITISH AND CANADIAN TAXES

The British purchase tax rate on radio and television receiving sets, phonographs, and combinations is 66⅔ percent of the wholesale price. Radio sets for use in ships and aircraft are exempt. Most parts when sold separately are also taxable at the rate appropriate to the unit for which they are designed.

In Canada, radio and television sets, and tubes when sold separately, are taxed at 25 percent of the manufacturers' price. The manufacturers' sales tax of 10 percent is also levied on these products, resulting in a combined tax of 35 percent.

TABLE 1.—*Number and value of manufacturers' production of radio and television sets, 1936–50*

[In millions]

Year	Number		Value		
	Radios	Television sets	Radios	Television sets	Total
1936	8.2	----	$169.4	----	$169.4
1937	8.1	----	165.4	----	165.4
1938	7.1	----	112.3	----	112.3
1939	10.8	----	153.4	----	153.4
1940	11.8	----	176.6	----	176.6
1941	13.6	----	233.8	----	233.8
1942 [1]	4.3	----	103.0	----	103.0
1946	16.0	[2]	434.2	$1.3	435.5
1947	[3] 20.0	.2	[3] 650.0	50.0	[3] 700.0
1948	[3] 16.5	[3] 1.0	[3] 525.0	[3] 230.0	[3] 755.0
1949	[3] 11.4	[3] 3.0	[3] 310.0	[3] 580.0	[3] 890.0
1950	[3] 14.6	[3] 7.5	[3] 375.0	[3] 1,350.0	[3] 1,725.0

[1] Civilian production terminated Apr. 22, 1942.
[2] Less than 50,000.
[3] Estimated.

Source: Radio-Television Manufacturers' Association.

TABLE 2.—*Retail sales and average retail price of radios and television sets, 1937–50*

Year	Number [1]		Value		Average price	
	Radios [2]	Television sets	Radios [3]	Television sets	Radios [3]	Television sets
	Millions	*Millions*	*Millions*	*Millions*		
1937	9.8	----------	$450.0	----------	$56	----------
1938	8.0	----------	250.0	----------	35	----------
1939	11.9	----------	355.0	----------	34	----------
1940	14.1	----------	355.5	----------	30	----------
1941	16.3	----------	469.6	----------	34	----------
1946	15.2	(4)	701.6	$2.1	50	$323
1947	20.0	0.2	926.1	83.5	55	468
1948	16.5	1.0	691.6	383.5	53	393
1949	11.4	3.0	345.5	970.0	43	323
1950	13.8	6.9	427.0	1,607.7	44	233

[1] Data since 1947 represent production as estimated by Radio-Television Manufacturers' Association. The figures for 1950 are less than shown in table 1 because table 1 contains more recent estimates.
[2] Includes automobile radios sold to automobile manufacturers.
[3] Household and portable radios only.
[4] Less than 50,000.

Source: Electrical Merchandising, McGraw-Hill Publishing Co., January 1951, pp. 70–71.

TABLE 3.—*Net profits before Federal income taxes of radio-television manufacturers, 1946–50*

[In millions]

Year	Suppliers	Set manufacturers	Total	Year	Suppliers	Set manufacturers	Total
1946	$16.4	$21.8	$38.2	1949	$22.8	$83.4	$106.2
1947	21.3	54.2	75.5	1950 (estimate)	59.2	173.5	232.7
1948	18.7	74.0	92.7				

Source: Radio-Television Manufacturers' Association, as published in hearings before the Committee on Finance U. S. Senate, Excess Profits Tax on Corporations, 1950, p. 249.

TABLE 4.—*Distribution by income classes [1] of all spending units,[2] money income, and spending units purchasing television sets in 1949 and those expecting (in the early part of 1950) to purchase one in 1950*

[In percent]

Income class [1]	Income 1949	Spending units		
		Total for 1949 [2]	Purchasers of television sets in 1949	Prospective purchasers of television sets in 1950
Under $1,000	2	14	2	3
$1,000 to $2,000	9	19	2	6
$2,000 to $3,000	16	21	16	10
$3,000 to $4,000	19	19	26	26
$4,000 to $5,000	15	11	14	20
$5,000 and over	39	16	40	35
Total	100	100	100	100

[1] Money income before income taxes.
[2] A spending unit comprises all persons living in the same dwelling and belonging to the same family who pool their incomes to meet their major expenses.

Source: 1950 Survey of Consumer Finances, Federal Reserve Bulletin, July 1950, p. 786; August 1950, p. 949.

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